STARTUP WISDOM 27 Strategies for Raising Business Capital



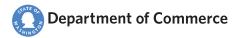
MAURY FORMAN & JORDAN TAMPIEN

CARTOONS BY CHRIS BRITT

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For information address: Washington State Department of Commerce 2001 Sixth Avenue, Suite 2600 Seattle, WA 98121





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A C K N O W L E D G E M E N T S

Writing a book may sound like a very individual activity. This book was not. We had assistance from numerous people who helped research, review, edit, brainstorm and provide great examples of businesses that raised money in nontraditional ways for their startup. This book started out as 10 ways to finance your business. Every time we thought we were through, we discovered another example. We stopped at 27. At least that's what the cover says as I write this acknowledgement. We probably could identify 50 ways to start a business and have Paul Simon write a song to go with it.

We know we would not have been able to complete this endeavor if it had not been for the entrepreneurs, editors, reviewers and designers that provided their ideas and suggestions. Without going into great detail about what each of them has done, we would like to acknowledge the assistance of Michele Ko, Rachel Maxwell, Adam Forman, John Sechrest, Tricia Kovacs and Lisa Smith.

I also want to thank Chris Britt for allowing us to use his cartoons that made the writing of this book more enjoyable and fun. A cartoon is definitely worth a 1,000 words when it comes to financing a startup. It helps make the entrepreneur understand the options they are getting and eases the frustration.

And finally I want to particularly thank my Department of Commerce colleagues, Gretchen Schlomann and Robb Zerr, who not only have the experience of being entrepreneurial, but also making me a better writer. I am grateful for their intellectual support for both words and graphics in this book. It is an honor to work with them.

CONTENTS

Bootstrapping7
Credit Unions9
Reward Crowdfunding 11
Equity Crowdfunding 15
Peer-to-Peer Lending 19
Community Sourced Capital23
Prepaid Sales25
Angel Investors27
Venture Capital
Local Investment Opportunity Network (LION)
Factoring
Home Equity
Partnerships45
Small Business Administration Loans49

7	Microloans53
9	Retirement Accounts55
. 11	Life Insurance57
. 15	Vendor Financing61
. 19	Leasing63
. 23	Grants
. 25	Business Plan Competitions67
. 27	Farmer's Markets71
. 31	Lemonade Stand75
	Microenterprise Development
. 35	Individual Development Accounts
. 39	Shark Tank85
. 41	The Lottery
4 5	

- INTRODUCTION -

 \mathbf{A} s an entrepreneur, the old adage that "it takes money to make money" rings just as true today as it did when J.P. Morgan and Andrew Carnegie were building their first

empires. Whether it's bridge funding to get you through the slow times or startup capital to get your latest idea off the ground, money, or the lack of it, can be a make-or-break proposition for any business.

This fairly common search for capital has even become popular fodder for reality TV. Millions of people watch Shark Tank each week to see hopeful



entrepreneurs pitch their ideas to the sharks. It definitely makes for great TV, but it is hardly a viable way to get funding in the real world.

The sad truth is, since the 1970s, there has been a steady decline in small business access to capital along with a corresponding per capita decline in job creation. Today, one in every three small businesses report that they were actively seeking capital and in a recent survey 80% found the process "very" or "somewhat" difficult. When asked what the biggest obstacle was to starting their own company, 36% of aspiring entrepreneurs said financing, followed closely by not knowing where to begin (34.7%).

Part of the problem is that banking as a whole has changed. Banks are rarely headquartered in the communities they serve these days. When it comes to small businesses, large banks are risk adverse, especially for any enterprise that is even mildly out-of-the-box in its business model, product line or plans.

This perceived risk is fantasy, of course. Statistics clearly show that when microbusiness owners receive small, nontraditional loans under \$50,000, combined with targeted technical assistance (e.g. market research, financial planning and/or management assistance), more than 80% survive and thrive during their first three to five years. What's more, they generally create two jobs in addition to the owner in the first three years of operation.

Since the banking industry isn't going to change any time soon, the only choice for small businesses and entrepreneurs is to seek alternate sources of financing.

That's what this book is all about. In the ensuing pages, we will cover 27 strategies for funding a business, from the traditional to the creative. They aren't ranked in any particular order, largely because one isn't any better than the other and the best solution will be unique to your company. The information regarding these strategies are not comprehensive. You will have to do additional research to make sure they are right for your startup.

- BOOTSTRAPPING -

Bootstrapping is all about making something work through your own efforts. The actual term refers to lifting yourself up by the laces on your boots, an impossible task that's meant to demonstrate astounding achievement in getting out of a difficult situation on your own. Fitting here, bootstrapping involves tapping into traditional sources of money (family, relatives and friends) as well as accessing your personal lines of capital, such as credit cards, personal loans, cash in checking or savings, investments, etc. This is how most businesses get their start. It requires imagination, ingenuity and the ability to tell your kids that they may have to settle on the local community college instead of Harvard or Stanford.

HOW DOES IT WORK?

It's easy to dream big, but bootstrapping allows you to start small and grow over time instead of being big right out of the gate, outspending your available cash in the process. By avoiding outside debt and equity financing you can utilize the following sources to fund your business:

• Personal income and savings, relatives and friends, etc.



- Personal credit cards, 0% interest balance transfers, personal loans, etc.
- Sweat equity, especially in the beginning.
- Keeping operating costs to a minimum.
- Participation in business plan competitions.
- Applying for grants, depending on the industry and product involved.

ADVANTAGES

Control. You keep complete control of the ownership of your company.

Less interest. Interest payments are minimized since you're not carrying large amounts of debt.

More time. You spend less time chasing funds and more time growing the business.

Future financing opportunities. You retain the potential to get financing down the road with equity created in the business.

Higher profits. Less interest costs can result in higher profits.

DISADVANTAGES

It's not one-size-fits-all. It can be cost prohibitive, meaning that some businesses need a large amount of capital to get started.

Slow growth. It can take much longer to grow a company without an infusion of outside capital.

Low to no salary. In the early stages, most of your revenue will likely need to be reinvested into the business.

Debt burden. If you tap into too many credit cards or personal lines of credit, you can end up with more unserviceable debt than expected.

BOOTSTRAPPING EXAMPLE

GoPro, Inc. was founded by Nick Woodman, who was disappointed in the cameras that were available to capture photos of him surfing in Australia. Determining that the best solution was to create his own all-in-one camera, housing and strap, Nick raised \$10,000 selling beads and shells out of the back of his van. To save money, he moved back in with his parents, taking odd jobs to pay for the design of his new idea. At the end of 2004, GoPro had \$150,000 in revenue. By 2013, sales were \$2.5 billion.

- CREDIT UNIONS -

While banks may be difficult to work with, credit unions can be much more amenable to working with small businesses. Credit unions are not-for-profit; their profits are invested back into the institution or paid out to shareholders/members in the form of a

dividend. Since they don't pay state or federal taxes, they may charge lower interest rates and have more favorable terms than larger banks.

Because you are a member and shareholder, not just a customer, your credit union may be more interested in investing in your enterprise. Credit unions are based around a singular customer base with a shared interest — such as working for



the same company, being in the same community or serving in the armed forces. Nearly 90 million Americans are members of a credit union and credit unions hold more than \$615 billion in savings. Worldwide, there are more than 46,000 credit unions with about 172 million members.

HOW DOES IT WORK?

Credit union loans are among the most competitive loans available. They tend to keep their rates and fees lower than average market rates and their qualification terms are usually more flexible. What's more, they take a less standard approach to qualifying potential borrowers. Instead of an automatic "yes" or "no", they may take a more personal approach when making a decision on your loan, especially if they know you as a customer.

To get started, do some research on credit unions in your area. Look at their business checking programs, loan products and rates, how many branches they have, and other factors that would benefit your business. Next, apply to become a member. Each credit union will have certain criteria, but there should be one in your community that works for you. Lastly, request to talk with a loan officer to discuss your business plan.

ADVANTAGES

Customers are owners. The objective of the credit union is to serve its customers, resulting in lower financing costs and programs designed specifically with those customers in mind.

Local. Credit unions are more locally focused and can understand the local lending environment and community more effectively than a large bank.

Credit unions are non-profit. This means that more of the profits are shared with the owners/customers so they are not forced to find ways to make money off their customers.

Exempt from federal taxes. As a result, credit union revenue can be put back into the institution, creating a greater pool of wealth and more lending opportunities.

DISADVANTAGES

Access to new technology can be limited. Smaller credit unions may not have all the bells and whistles you're used to, such as full-service online banking. If 24/7 accessibility is important to you, you may want to factor this in when making a decision which credit union you should join.

Traveling. Since credit unions are local, you may find there are fewer branches around or even ATMs you can use. Fortunately, many credit unions participate in networked banking, so you can use the services of other financial institutions when you're traveling.

Restriction of membership. Because credit unions must focus on a certain community or industry, you may not be eligible to join the credit union of your choosing. Before you give up, see if someone in your family belongs, as they may be your gateway to membership.

CREDIT UNION EXAMPLE

Frank is a photographer in Wenatchee, Washington and has been in business for five years. As technology continued to advance, his equipment became outdated and he needed an update. He initially got a credit union membership because it offered a free checking account for his business. Frank's credit isn't the best, but instead of rejecting his application outright, they enrolled him in a credit builder program that provided a \$300 loan to get a \$300 secured card so he could raise his credit score. After six months, he was ready for a bigger loan. He has a relationship with the loan officer and they worked together to secure a \$10,000 loan from the Small Business Administration to update his photography equipment. He is a lifetime customer.

- REWARD CROWDFUNDING -

Crowdfunding has greatly changed the way businesses raise capital. There are two primary types of crowdfunding: reward crowdfunding, which allows investors to contribute to a venture for non-financial benefits; and equity crowdfunding which invests money in exchange for shares.

Reward crowdfunding is by far the most popular, as nearly three quarters of investors prefer to exchange their money for promotional items or one of the first products off the production line, depending on the opportunity and offer. In its simplest form, reward

crowdfunding is a process where multiple investors contribute smaller amounts in greater numbers, creating a ready pool of funds. Sites such as Kickstarter. Indiegogo and Gofundme offer entrepreneurs, startups and businesses a funding mechanism that results in money from customers, fans, family and friends from around the world who are excited about the idea or business you have



and want to back it. As an example of its popularity, Kickstarter has collected pledges of over \$1,899,839,543 for nearly 100,000 successfully funded projects as of 2015. Not bad for a concept many thought would never get going.

HOW DOES IT WORK?

Though every crowdfunding site is different, the basics remain the same. You create an account on the site, offer various levels of investments, often with corresponding perks such as a freebie or the chance to be the first to own your product, and you use social media to build an audience of potential investors. Usually there is a set amount of time for the fundraising initiative and if that time passes and you don't reach your goal, the monies are refunded to your investors. A caveat: This type of financing is not regulated like a normal loan by the Securities and Exchange Commission as the returns are considered intangible.

This creates an opportunity to raise the money you need without having to repay a "loan." It also allows you to raise awareness about your business and do some premarket marketing to build a relationship with your audience. A well-crafted and executed Kickstarter campaign can reach millions of people.

BASICS STEPS

- 1. Sign up and login. Go to Kickstarter, Indiegogo, etc. and create a simple page where you explain your idea, upload a video and pictures, and ultimately craft the message you want people to hear. You will need to select your goal dollar amount to achieve. Make it attainable and specific. Some sites require the promise of goodies if certain levels are donated, so be sure to think these through as they are both enticements to donate and a cost to your business.
- 2. Share with friends. Tell all the people you know on social media and ask them to share it with their friends.
- 3. **Raise money**. Now your pledge is live and you can watch as people who believe in your idea pledge money in return for a reward that they'll receive if your project succeeds. Keep marketing it and keep your donors updated on your activities as you take your company, product or service from the idea stage to realization.

ADVANTAGES

Quick funds. You can quickly raise the money you need with no upfront fees.

Marketing. This can be a great way to market your business at the same time.

Market acceptance. This can be a good way to see if the public likes your product or business. If you get a lot of investors, then your idea may just hit the big time. If not, then you may need to rework some elements. Some ideas fail miserably, only to get fully funded somewhere down the road.

Momentum. The more backing and investors that you get, the more people will want to invest. You can use your results from this campaign as further advertising if you meet or exceed your dollar amount requested. You may even get a little press coverage.

Investor loyalty. After backing your pitch, your investors can end up becoming your most loyal customers.

Alternative to bank loans. It can end up providing the necessary funding (and then some) when more traditional methods of financing dead end.

DISADVANTAGES

Difficult to build an effective campaign. You will need more than just an iPhone video or selfie of you in front of your store to get support. You will need to invest in a truly compelling marketing campaign so it will take time and effort as well as some money if you want the pitch to look and be professional.

Significant resources are required. Free is not always free. You will earn the money through sweat equity as you maintain, monitor and promote your campaign to reach your stated goal.

Funding not guaranteed. If you don't reach your funding target, any money that has been pledged will usually be returned to your investors and you will receive nothing.

Potential negative impact if you fail to deliver. If your project does not make it to market, you may damage your reputation and the reputation of your business and your fan base may be less likely to invest in other projects you post.

Rewards can be costly. Rewards can take more time and money if not properly managed and distributed. Getting the rewards or returns wrong can mean giving away too much of the business to investors.

REWARD CROWDFUNDING EXAMPLE

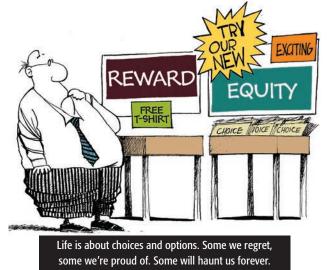
The first Pebble Technology watch broke all records when Kickstarter donors funded its first smartwatch in 2012. The brainchild of founder and CEO Eric Migicovsky, 400,000 watches were sold in the first year alone. Not to be outdone, the company did a second Kickstarter campaign for its Pebble Time watch. Talk about customer loyalty. The watch raised \$20.33 million, the first million of it in less than an hour. The watch not only shows the power of Kickstarter, but also shows that in a world dominated by Apple and Google, a David can best a Goliath with a little help from his friends.

- EQUITY CROWDFUNDING -

Congress passed a law which is considered the holy grail of crowdfunding. Known as the Jumpstart Our Business Startups Act (or JOBS Act), the legislation has introduced equity crowdfunding as a new way for startups to raise capital from non-accredited investors to start their business.

The law is intended to encourage funding for small businesses by easing security regulations that have stifled startups in the past. By providing easier access to funding, it's hoped that this form of crowdfunding will create more jobs, boost the economy and benefit entrepreneurs, small businesses and investors.

Before the law



was passed, the opportunity to invest in privately held businesses was limited by law to accredited investors only — individuals with a liquid net worth of at least \$1 million or an annual income of at least \$200,000. While there are some 8.6 million accredited investors in the United States, only 3% invest in small businesses. With the new law, anyone can invest up to \$2,000 or 5% of their annual income, whichever is less. Companies can raise as much as \$1 million via equity crowdfunding. Equity crowdfunding has shown substantial growth since the passage of the JOBS Act and is expected to surpass venture capital in 2016.

HOW DOES IT WORK?

There's no set format for how an equity financing campaign works. As with any funding mechanism, you should use due diligence in researching and using equity crowdfunding, since it is still fairly new. That said, there are generally three main steps for equity crowdfunding:

- 1. You will need to create and publish a profile of your business and required funding needs. You can also create a public profile page with your own URL to share with others to expand your reach.
- 2. It's recommended that you use business plan and analysis software to optimize your planning. Those that do are 10 times more likely to obtain funding, according to Equity Net.
- 3. Share your plan with investors who meet your ideal profile. There are a bevy of equity crowdfunding sites out there, such as Wefunder, Early Shares, Fundable, Crowdfunder and EquityNet. These platforms allow you to communicate with thousands of prospective investors, including angel investors, venture capitalists, business supporters and more.

ADVANTAGES

A wider investment pool. Allows you to expand your network of potential investors. You don't have to rely heavily on personal networks or accredited investors as in the past.

Reduced investor risk. Smaller amounts of money from more investors spreads the risk. Equity crowdfunding can increase the chance a riskier venture will be funded in the earliest stages since risk is shared more broadly and the investment is smaller.

Simplicity. Entrepreneurs can use traditional marketing skills to access and attract investors, providing them with videos, information and a profile instead of sending endless long-form emails back and forth.

Evangelism. The larger pool of investors increases your ability to gain awareness of your startup or enterprise. As investors, these people want you to succeed and will readily share your story with others.

Critical mass. Crowdfunding is a fairly accepted funding strategy, both from the business and investor perspective. Investors can use CrowdRating to determine which investment is best for them. CrowdRating rates every pitch on leading crowdfunding sites according to the quality of their management, the viability of their idea and the terms of the investment.

Good source for feedback. Your investors will give you a good idea of the viability of your company, product or service. The more investors, the greater the chance it will be successful.

DISADVANTAGES

Resource intensive. As with any form of crowdfunding, there's a lot of groundwork to do before you start raising funds. This includes getting the word out through every channel you can think of and tirelessly promoting your business or project.

Exposure. It's a dog-eat-dog world out there. In addition to investors, competitors can see what you're up to as well and beat you to market. Make sure your intellectual property is properly protected before going public.

Can be expensive. Some states are making new rules about equity crowdfunding, in addition to the ones legislated at the federal level. Federal law may require entrepreneurs to pay a fee to a registered broker or portal and that can be very expensive. If you're raising \$1 million, for instance, you'll have to pay a third party broker as much as \$150,000 to conduct the offering.

Regulations. All the new rules and regulations added by states can mire you in red tape. Know all the rules before you proceed as they vary by state.

EQUITY CROWDFUNDING EXAMPLE

Camperoo is a subscription-based business that picks up where schools leave off, providing 6-12 grade students with skills in technology, creativity, engineering, teamwork and STEAM in a fun, casual real-life environment. To fund their venture, Camperoo raised \$838,000 from 35 equity investors on Wefunder. To date, Wefunder has assisted 114 startups raise over \$17 million from 58,830 investors.

- PEER-TO-PEER LENDING -

T here are lots of websites on the Internet that will tell you that getting a loan is easy. Just a few bits of information and the money will be on its way. As they say, if it sounds too good to be true, it probably is.

That said, there are peer-to-peer lending resources that are perfectly legit and can be a pathway to finding the capital you need. Think of it as a hybrid between a traditional loan and a Kickstarter campaign with just a little eBay thrown in for good measure.

The process is simple. Three good examples are Lending



Give a man a fish and you feed him for a day, teach him to use the Net and he won't bother you for weeks.

Club, Prosper and Lending Robot. You can borrow up to \$35,000 in unsecured, low interest loans in most P2P programs. Prosper, which launched in 2006 has generated \$4 billion in loans to date. Lending Club has generated 11 billion since its launch in 2007. Lending Robot, a Washington State company and new kid on the block founded in 2012 raised \$700,000 in seed funding in 2014 followed by a Series A round of 3 million.

The main benefit is that you can get an unsecured loan with a lower rate than most bank loan rates with less paperwork. Interest rates can vary greatly, but suffice it to say that the terms of the loan can make this option attractive for many businesses.

HOW DOES IT WORK?

Like crowdfunding, there are multiple investors on peer-to-peer lending sites that fund small amounts of the total loan requested. Investors put their savings/investments into an account on the site that can be loaned out to businesses. In return, they get a decent return on their investment through a pre-set interest rate.

To get started, all you need to do is fill out the application. The site will rate you as a borrower, using some proprietary algorithms that factor in your credit, income and other data. You are then assigned a credit rating on the site, which depends on your financials as well as the level of risk to the borrower.

You decide how much you want to borrow along with the interest rate and term. You can opt for a lower interest rate with a shorter term or a longer one that has a smaller monthly payment but a higher interest rate. Once funded by the investors, the loan is wired into your bank account within 72 hours.

ADVANTAGES

Easier approval. A major feature of peer-to-peer lending is the hassle-free application process that results in a higher likelihood of approval. Even if you have bad credit, the result may be a higher interest rate to compensate for the increased risk, but you can still get financing. Just be sure that you factor in the terms and your ability to pay back the loan at the indicated rate.

Fewer fees. By reducing overhead costs by hosting their platforms online, these companies are able to minimize costs and pass that savings on to you as the consumer.

Reduced time. Often, a business needs funds sooner rather than later. The turnaround time is three business days and the money is dropped right into your bank account. Traditional lending strategies can take weeks to close and fund.

DISADVANTAGES

The money isn't guaranteed. Just because you apply for the loan does not guarantee you will be funded. Investors will look at your credit, income, risk and other factors to decide if you are a good investment. If there aren't enough individuals interested or willing to invest in your loan, you may not be able to get the funds you need.

Interest rates can be higher. The rate depends on your credit worthiness, income and other factors. If you have less than stellar credit, the interest rates can be much higher than other sources of capital. Also, increased risk can translate into increased interest rates.

Lenders aren't known. You as the borrower have no idea who is lending you the money. You are basing your decision to borrow on the credibility of the peer-to-peer lending company, not your investors. Since you don't know who is investing in your company, you will want to review all the lending documents carefully.

PEER-TO-PEER LENDING EXAMPLE

Jason is starting a restaurant specializing in upscale pub food in his neighborhood. He was able to get started initially with savings and a small loan from his mom and dad, but he still needs \$20,000 for a new hood vent system. He has good credit, but the business is too new to get a loan from his bank. So he applies online at a peer-to-peer lending site. In three days, he is approved and wired \$20,000 plus a fee and 6% interest (because of his credit) on a five-year term to purchase the equipment he needs.

- COMMUNITY SOURCED CAPITAL -

 \mathbf{T} he concept of connecting community members with local businesses is an emerging trend. Community Sourced Capital is a zero-interest loan platform that is perfect for a growing business with larger capital needs. This crowdfunding model introduces new

elements by offering different funding options that aren't offered through a traditional Kickstarter model. This connection with local customers can help businesses overcome barriers related to financing their operations.

HOW DOES IT WORK?

There are two great options to get started as a business with Community Sourced Capital:

1. 0% interest loan. The first option is to do a crowdfunding



campaign, soliciting support from your local community and customers. Loans range from \$5,000 up to \$50,000 with repayment terms up to three years for an established business. This option works well if you have an established network to appeal to. Community Sourced Capital charges a one-time fee of \$250 along with a \$50 per month membership fee that is only incurred while you are repaying your loan.

2. **Mission-aligned funding**. If you don't have a network of local supporters, Community Sourced Capital can connect you with mission-aligned funders in their network. This connection is free to you.

ADVANTAGES

Zero interest. This alone makes the option attractive. As long as you meet the repayment terms, you can use the money at 0% interest. Outside of the one-time and monthly fees, there's no additional cost to you as far as the loan itself.

New customers. You can create new relationships locally as you promote your funding campaign through social media, advertising, word-of-mouth and events. A lot of smaller communities love to support "buy local" campaigns and the buy-in for a funding share is low.

Renewable. Once you complete repayment of your loan, you can mount a new fundraising campaign for your business to fuel further growth and expansion.

DISADVANTAGES

You have to do all the marketing yourself. This can be time consuming and if you're not used to working social media and other marketing strategies, you could find yourself coming up short in the end, which means no loan.

Reputation is on the line. If you don't pay back the loan on time or default, you could create ill will in your community with investors and ruin the reputation of you and your business.

Hitting the ceiling. While other crowdfunding strategies allow your campaign to raise more than the requested amount, this strategy has a specific upper cap on it. If your idea gains a lot of traction, you may be able to raise funds faster, but you won't be able to raise any extra.

COMMUNITY SOURCED CAPITAL EXAMPLE

Tiffany and Brady have owned their beachside hotel since 2011. Wanting to make it environmentally friendly, they wanted to install a solar hot water system on their roof. To cover the nearly \$25,000 project, they launched a www.communitysourcedcapital. com campaign in their community, using emails and their newsletter to contact friends and hotel guests to give them an opportunity to become "squareholders" in the project. To encourage donations, they offered a discount code for a weekend stay to donors. They not only got the funding they needed, but paid the loan off in a year. They sought a second loan to add photovoltaics to the roof. Seventy percent of their first round investors reinvested in this second project.

- PREPAID SALES -

With prepaid sales, you sell your product or service using a pre-paid gift card that sells for less than your cost. This provides you with startup capital and there is a secondary benefit in that you have

a built-in customer base, the people who purchased your offer, who may end up spending even more at your business. Prepaid sales can even lead to long-term relationships, especially for retail operations such as a restaurant, pub or bar where walkin traffic can determine success or failure, especially in the early stages.



HOW DOES IT WORK?

It's pretty basic. You offer a \$100 gift card to your customers for \$75. The actual product or service costs you less than \$75 so you generate a small profit from the start. If the individual uses the card, you generate even more revenue for your business and many customers will spend more than the gift card amount when they visit. More important, you get \$75 up front from each sale to put directly into your business.

ADVANTAGES

Allows you to test the market. You don't have to guess if people will like your product or service; you can actually test it. The more you sell, the more actual demand you will have for business. Basically, the prepaid sales strategy lets the market tell you what your product or service is valued at.

Create a minimum value product (MVP). MVP is a product with the highest return on investment at the lowest risk. Basically, you can see which products or services are more appealing to your end user.

Minimizes the risk of product failure. By testing the market, you can avoid costly errors in creating product or service offerings. Again, prepaid sales provide predictable demand assessments that you can use to inform your business decisions.

DISADVANTAGES

Insufficient demand. You may provide a product or service that is not desired by consumers. This will be a valuable lesson, but it can also be a costly one.

Inability to deliver. What if you can't deliver on the gift cards or prepaid products or services promised? Be sure you can deliver before you offer up gift cards or prepaid products. Not delivering will not only damage your reputation, but can lead to lawsuits.

Idea theft. Theoretically, this strategy exposes your idea or business model at a stage when you still aren't up and running. This can reveal your business concept to others who can potentially steal your thunder before you are able to get going. Not common, but it does happen.

PREPAID SALES EXAMPLE

Jennifer wants to start a coffee shop in a quaint storefront on Main Street. She has a loyal following and feels like she will be successful, but needs another \$2,500 to get the final pieces in place. So she offers \$100 gift cards as a "Loyalty Membership" for \$75 each. She gets 40 people to buy the gift cards for a total of \$3,000 that she uses to finish the coffee shop. On opening day, all 40 of her loyal members showed up to use their gift cards and several brought friends with them.

- ANGEL INVESTORS -

A century ago, New York playwrights on shoestring budgets found angels waiting in the wings: wealthy and visionary individuals who would finance their productions, hoping to make a healthy return on their investment. Today, angels are usually business people who have made their fortunes in other businesses. In most cases, angels invest in early

stage companies and startups, though they may also invest in established companies. Their investment amounts are lower than venture capitalists, since they are investing their own money. As such, they might expect a significant return on their investment and also want to have input on the direction



the company is taking. As part of the deal, they may require strict budgets and sales goals and even take on some role in managing the company. Their goal is to take your company to the next level where a venture capitalist would show interest. Funding can be a one-time injection of seed money or ongoing support to carry the company through a specific period of time.

HOW DOES IT WORK?

After preparing a pitch, you need to connect with an angel investor who finds value in your idea. The terms are typically structured in one of three ways:

- They initiate funding with a promissory note, deferring interest payments for a year or two, converting debt into equity (15 to 30%) at certain performance benchmarks. They may want a seat on the board and you will be on the hook to reach or exceed agreed upon performance measures.
- A cumulative convertible preferred stock position is taken initially. The company can defer fixed cash dividends for four to eight fiscal quarters, the angel may want a seat on the board, and the company must meet its agreed upon performance measures.
- A common voting equity position is taken up front and the angel is involved in company management, bringing in assistance with operations, marketing and distribution for an initial period of time. This allows the company to reduce risks while gaining intellectual and financial capital in the early stages.

ADVANTAGES

Better chance of adequate funding. Because angels are bringing their money to the table, they can offer deals that banks can't do. Angels can push the envelope for risk and lending and can fill a gap left by banks.

Flexibility. Angels can be more flexible with the amount you want to borrow, the terms and repayments; basically every feature of the lending experience. While other lenders may have to adhere to strict criteria, angels can invest in a wide range of businesses with varying degrees of risk.

Experience. You don't just get money from the angel, you are tapping into their experience and networks. They can play a key role in helping you develop a strategy, acquire customers or assist with any other facet of your operations. This can be key to an entrepreneur's success.

Higher success rate. A recent Harvard Business School study found that firms funded by angel investors had higher survival rates, faster growth cycles and were able to secure additional funds more easily than other firms.

DISADVANTAGES

Investor expectations. Angels take a risk/reward approach to investing. In most cases, they are taking a risk on you as a company. The greater the risk, the more they will want in return. They may seem greedy, but they are only protecting their interests.

Loss of control and future profits. Once you sign on the dotted line, your angel may now be your business partner. Because they have skin in the game, they might want to have a say in your operations. Of course, you can outline roles and responsibilities in your agreement, but you have to expect to lose at least some control in exchange for financing and you will ultimately be responsible to your investor for your success.

Limited funds. Angel funds can be significant, but you are limited to the amount that your angel wants to invest in your company. When he or she is tapped out, then you will need to find another option. Chances are an angel is unlikely to want to keep pouring money into your business unless you can show strong profitability and growth.

ANGEL INVESTOR EXAMPLE

Apple Computers was not even a year old and had only sold a couple hundred computers when Mike Markkula arrived on the scene in 1977. He told Steve Jobs and Steve Wozniak that he was willing to invest \$250,000 in the new company in exchange for a third ownership in Apple. Mike not only brought money to the company, but experience and connections, ones that helped Apple get the venture capital it eventually needed to grow into the multi-billion dollar company it is today. Without Mike, there never may have been a Macintosh or an iPhone.

VENTURE CAPITAL

 \mathbf{V} enture capitalists target startups and small businesses that appear to have long-term growth potential using equity based funding models. The dollar amounts are usually

larger than those of angel investments, but venture capitalists aren't in it for the long haul; it's a short term venture with an exit strategy on the back side. Venture capitalists typically enter the picture after a company is already started (high tech seems to be an exception) and has a proven concept and initial revenues.



HOW DOES IT WORK?

Venture capitalists invest in terms of millions of dollars. Their niche is proven businesses or high growth startups that have potential to be sold or go public. This is important to note as you are considering this type of financing for your business. You will need to prepare a pitch and be ready to hear the word "no" a lot. This is not meant to discourage you from seeking this type of funding, but you do need to be realistic not only

about the chance for success but the ultimate direction a venture capital firm wants to take you, which is to an exit strategy. For the right business, however, these funds and the advice that comes with it can be invaluable to their success.

Remember, venture capital firms are trying to protect their investment. They are willing to take the risk now for the larger return down the road. They may want to fund your business in rounds, meaning that you must reach specific milestones in order

to receive another cash injection. In exchange for the money, a venture capitalist will work to gain control by joining your company's board of directors and injecting direct operational oversight where needed. For startups, venture capitalists may opt to start with small investments to see what you will do with it. Like angel investors, they will establish benchmarks and provide timelines to be met in order to be eligible for more funding.

ADVANTAGES

Large pool of funds. Venture capitalists invest larger amounts than you can secure from an angel, commercial lenders or government lenders.

Rapid growth of your company. Since the venture capital firm maximizes its return on investment when your company is sold or goes public, they will push for scaling your business quickly to meet these goals.

Experience. Venture capital firms have significant experience and connections to get your business moving in the right direction. They are invested in your success so they can open doors that otherwise would be closed.

Shared risk. Since the venture capital firm is an owner in the company, it shares the risk associated with growing your company.

Multiple investor options. There are venture capital firms for every stage of a business so you may be able to get financial assistance from different kinds of firms, such as those specializing in startup businesses or developed companies looking to grow.

DISADVANTAGES

Give up control. The venture capital firm becomes part owner and has a large investment in your success. In exchange for funding, you are giving up ownership in the company.

Decision making. Because of their significant investment, these investors will want some managerial control when it comes to decision making for the company.

IPO decision. Since the venture capitalist doesn't make money until their shares are worth something, you may run the risk of an early sale to a competitor or a premature IPO offering.

Proprietary information. You will be giving access to every part of your company when pitching venture capital firms. Understand going in that you are sharing your business model and secrets.

VENTURE CAPITAL EXAMPLE

Juno Therapeutics is developing new technologies to genetically re-engineer patients to fight cancerous tumors with their own white blood cells. The company raised \$264.5 million in several rounds of financing from venture capital firms. The company, which brings together three of the world's largest cancer centers — Fred Hutchinson Cancer Research Center, Memorial Sloan-Kettering Cancer Center and Seattle Children's Research Institute — went public in December 2014, not long after this infusion of venture capital.

- LOCAL INVESTMENT OPPORTUNITY -NETWORK (LION)

A Local Investment Opportunity Network (LION) is a group of people (friends, coworkers, etc.) who meet to invest in their local community. It is designed to create opportunities for local businesses and entrepreneurs and this informal group can invest in businesses without running afoul of U.S. Securities and Exchange Commission rules regarding shares and investments.

Local Investment Opportunity Network was



founded in 2008 by a group of local citizens in Jefferson County, Washington. Intent on allowing investors of all economic capability to participate, they created a loose organization of interested parties careful to follow SEC regulations regarding accredited investors and investment clubs. This required that they make their investment decisions independent of each other, meeting with borrowers separately and agreeing to their own financial arrangements with the borrower. The result was a group that did not have an organizational entity, only a member agreement that, primarily, promised confidentiality to borrowers and investors who participated in LION's activities. The LION does not facilitate any investments, nor does it allow the business to make a pitch to solicit funds. Individuals involved in the group deal directly with the business as individuals, not as members of a formal organization. The model is focused on giving companies an alternative to banks and other lenders, allowing them to borrow money from their customers and neighbors, keeping the money local. In essence, it is a Buy Local philosophy taken to the next level.

In the 5 years since its founding, LION of Jefferson County has made approximately 150 investments and over 3.8 million dollars of total investment. Their entering the lending arena just as the Great Recession was beginning was fortuitous for Jefferson County. Without LION, the last 5 years would have been significantly harder for one small rural county in Washington State.

HOW DOES IT WORK?

Your business contacts a LION network and submits an application. The application and funding opportunity is then forwarded to potential investors in the network. Interested investors contact the business directly. If the investor is interested in the project, the deal is negotiated and papers signed. You'll continue to work with each lender of the LION to meet the terms of their individual contract with you and your company.

ADVANTAGES

Local connection. The level of familiarity and knowledge that comes with a local investment can provide investors with greater insight and increased commitment to your business.

More favorable terms. Interest rates on loans are generally lower and repayment options can take many forms, including store credit or other in-kind remuneration.

Relationship building. These investors can be your neighbor, customer or a mover and shaker in your community. As such they can become mentors and cheerleaders for your business, helping you move more easily to the next level with their support.

DISADVANTAGES

Private transactions carry risk. There is no regulatory oversight or recourse and investors and businesses must conduct their own due diligence.

Multiple investors. You'll need to track and manage individual contracts with each investor.

Ill will. If you fail to pay back your loans in a timely manner or in full, your reputation could take a beating in your local community. There's no arm's length between the investor and your business since you may move in the same circles in the community.

LION EXAMPLE

Anthony has an opportunity to purchase his uncle's diesel repair business. It is the only diesel repair business in his small county with the nearest option over 50 miles away. He fills out an application to LION and receives several interested inquiries from LION investors. He receives \$50,000 from 3 LION investors and is able to purchase his uncle's business. Two years later he has paid back the loan and has 2 additional employees in the business. Jefferson County, Washington retains an essential service business to meet the needs of the community.

- FACTORING -

If your company has receivables that are regularly 30 or 60 days net, you can sell them to a third-party financial company and get paid before the payables are received. Known as factoring or accounts receivable financing, this strategy allows you to get your money more quickly, improving

your cash position. It is not a loan and you don't assume any debt in factoring. It is ideal if you need to address a short-term cash issue or need to stimulate growth.

HOW DOES IT WORK?

If you pursue this strategy, you'll need to do some research to find a financial company that offers factoring services. Terms and fees can vary greatly, so shop around. Once you set up an account, the factoring firm will evaluate your receivables



and if everything looks good, will purchase your invoices. Depending on the company, you should receive between 80 and 95% of your receivables upfront. The remaining percent, minus a factoring fee, is rebated to you once the client pays the invoice. If an invoice is not paid, the factoring company will handle collections on the outstanding balance.

ADVANTAGES

Ready capital. You can customize how you use factoring so that you get cash when you need it.

No debt. Since this is not a debt, it does not show up on your balance sheet as debt financing which affects your bottom line.

It's not about you. Qualifying for factoring is based on your customer's qualifications, not yours.

Sales-based financing. Factoring provides a line of credit based on your company's sales, not your net worth.

Startup friendly. Since the financing decision is based on your customer's qualifications, startups can be eligible for this type of financing to address immediate cash flow issues.

DISADVANTAGES

Bad press. When you assign your invoices to a factoring company, your customer is notified and this could signal to them that you have cash flow issues. Be sure to provide advance notice to customers and explain why you are factoring to reduce potential outfall.

Less control. Because you took the cash for receivables, the use of a factoring company could prevent you from working with certain clients in the future.

Cost. The fee for this type of financing can be in the range of 1% to 4% plus the interest charged on the cash advanced. This can make it a pricey option for many companies.

FACTORING EXAMPLE

Jake owns a small manufacturing company that's looking to grow and acquire more clients. He just landed a new customer that needs 100,000 units per month. The customer will pay for the service within 30 days, but Jake does not have enough money to get the equipment necessary to meet this demand. He tries a bank but is turned down. So Jake turns to a factoring company, selling the customer's invoice in exchange for a 90% advance on the total amount within a day. This infusion of cash covers the cost of the new equipment until the invoice is paid and the business is able to grow. The availability of cash allows Jake to take on this new customer and handle the increased volume for his business.

- HOME EQUITY -

This type of loan allows you to tap into the equity in your home. Theoretically, you can borrow up to 100% of the value of your home, depending on the type of loan you get and how much you've paid down the mortgage. Just remember, if you fail to make payments

on the loan, the lender can foreclose on your home, even if you're making the mortgage payments because they are different loans.

There are two types of home equity loans: fixedrate and a home-equity line of credit (HELOC). The fixed-rate loan is similar to the one you have for your mortgage. The interest and term are set in stone and you make monthly payments on it.



A home-equity line of credit works more like a credit card, but with lower interest rates. In contrast to the fixed-rate loan, you only pay interest on the amount you've actually borrowed rather than on the credit limit itself, which may be higher. This type of loan also has a set term in which the loan needs to be paid back.

HOW DOES IT WORK?

The amount loaned will depend on how much equity you have in your home. Once you know the amount, you can apply for the loan with a lending institution that offers home equity products. The approval process is similar to a mortgage as far as qualifications and timelines. It's definitely an option for starting a business; just remember that you're putting your house on the line as the collateral.

ADVANTAGES

Lower interest rates. This can be one of the least expensive ways to get needed capital. Because it is "secured" with your home as collateral, lenders are more confident in your ability to pay your debt. Basically, there is less risk to the lender so you get a lower rate.

Tax deduction. Similar to your mortgage, the interest payments can be deductible, which would not be available with credit cards. Please consult your tax adviser to see if you qualify first.

Large cash payout. Depending on the amount of equity, you can get a large sum of money to tackle startup or expansion costs at an affordable rate and with good repayment terms.

Flexible borrowing. You can use the money from a home equity loan any way you wish. A business loan usually comes with restrictions.

DISADVANTAGES

Loss of assets. If you fail to pay back the loan as agreed, your property can be foreclosed upon by the lender.

Time. Because of the appraisal requirements and lender backlog, it can take up to six weeks or more to get the requested funds. It is not a good option if you need cash quickly.

Costs. You will have to pay closing costs on your home equity loan, similar to what you did with the mortgage. These costs can be between \$3,000 and \$6,000, depending on the amount of the loan.

Interest rate risk. HELOCs usually come with variable interest rates that are based on the prime rate. That means your payments will rise or fall and make it difficult to budget.

HOME EQUITY EXAMPLE

Ron bought his house 10 years ago for \$100,000. He is looking for low interest money to start a business. Today, the realtor told him that his house was worth \$250,000 because of the improvements he made to the property and overall market appreciation. Based on this valuation, Ron has \$150,000 of equity in his home. He applies for a \$100,000 home equity loan at his local bank and it is approved. He receives the money at 4% interest fixed for a 20-year term. At closing, Ron gets a check for \$100,000 minus the closing costs and fees. He now has available cash to purchase materials to start his business.

- PARTNERSHIPS -

Partnerships leverage the power of two or more. Basically, a partnership is an agreement between two or more people to own, finance and operate a business. This is a legally recognized entity where all profits and losses flow through the company to the individual owners at tax time in proportion to their percentage of ownership. However, each partner is liable for the other's actions within the business.



There is a lot to think about before entering into a partnership. Each general partner has a set amount of responsibility and authority to run the business, depending on the percentage owned. Most business experts caution against a 50/50 partnership as it can end up in some tense, coin flipping moments. And remember, one partner acting on behalf of the partnership commits the entire partnership to an agreement or contract.

HOW DOES IT WORK?

Setting up a partnership is pretty straightforward and is similar to setting up a sole proprietorship. That said, it's a good idea to spend time defining the roles, responsibilities, authorizations and terms between partners in writing before you form the partnership. Legal advice is always a good idea. In its simplest form, a partnership operating agreement should spell out:

- 1. What the roles and responsibilities of each partner are.
- 2. The financial structure of the partnership, including who makes major financial decisions.
- 3. Termination agreements due to death, change in circumstances or any other possibility.
- 4. Who is authorized to bind the company to contracts.
- 5. How to dissolve the company.

ADVANTAGES

Easy to start. It is easy and affordable to form a partnership.

Two or more heads can be better than one. With two or more partners, it can be easier to raise money, make contacts, grow the company and handle day to day operations.

Less individual risk. Since partners are involved, the risk can be spread across the group. Financial infusions are spread among the partnership as well.

Greater expertise. More partners investing in the company brings more business expertise. It is important to look for partners that compliment you, not partners that bring the same skill sets to the table.

DISADVANTAGES

Unlimited liability. Partners are jointly and individually liable for the actions of the other partners.

Profits must be shared. You do not get to keep 100% of the profits. They must be split among all partners.

Less control. Since you have one or more partners, you must consult with them before making decisions and they can ultimately disagree with you. Levels and types of decision making can be outlined in the partnership agreement.

Termination can be difficult. A partnership is for the long term and expectations and situations can change, which can lead to dramatic and traumatic split ups.

Limited life. In contrast to a sole proprietorship or corporate structure, a partnership can end with the death or withdrawal of a partner. Make sure that the operating agreement outlines what to do in these situations.

PARTNERSHIPS EXAMPLE

Jacob and Sylvia want to purchase a 36-unit apartment building. Jacob has experience with renovation work and property management while his friend Sylvia brings money to the table. By partnering, they were able to purchase the apartment and Jacob began remodeling the next day to get it rent ready. By themselves, the deal would not have happened, but together they were able to find, purchase, renovate and lease out the entire building.

- SMALL BUSINESS ADMINISTRATION -LOANS

The Small Business Administration (SBA) doesn't really make loans. Rather, they guarantee up to 90% of a loan a lender would make, if the loan meets specific requirements. Many of the loans offered by the SBA require collateral from the borrower, but the SBA's guarantee limits the risk for lenders. Because loans have to be collateralized, the lender will require liens on all of your business equipment, inventory and receivables along with your personal residence, in most cases. The SBA loans for real estate can be amortized over 20 to 25 years which can lower monthly payments. The



the fine print.

two most popular programs are CDC/504 and 7(a) program.

HOW DOES IT WORK?

Though programs can vary, here are the basics to qualify:

- Credit score. 660+ FICO score for all primary business owners. In many cases, you will need to personally guarantee the loan.
- Down payment. Typically you will need a down payment of 20 % or more if you're using the loan proceeds to purchase a business or real estate.
- **Collateral.** These loans must be fully collateralized, so the more collateral options you have, the easier it is to get qualified for an SBA loan.
- Time in business. Generally, lenders are looking for a minimum of two years in business. There is an option for startups which would be the SBA 7(a) loan.

There are several different SBA loan products.

- SBA Express Program. If you are looking for a quick turnaround this one is it. You can usually get approval within 48 hours. It can be used for equipment purchases, expansion, owner-occupied real estate purchases, working capital and more. Not only can you get a quick response, but you can decide between a fixed and variable rate with loan amounts up to \$350,000.
- 7(a) Loan Program. This program can be used to purchase new equipment, real estate for an expansion or working capital. You can borrow up to \$5 million with either a fixed or variable rate along with better loan terms. In the first quarter of 2016, in Washington banks made almost 200 loans for a total value of \$78.5+ million.
- **504 Loan Program.** For businesses looking to buy real estate or equipment, this program can finance up to 90% of the purchase or renovation cost. You can borrow up to \$12 million with either a fixed or variable rate.
- USDA Loan Program. Businesses in rural areas can qualify for favorable terms and interest rates. Just check online at the SBA website (http://www.sba.gov) to see if your location qualifies.
- The Small Loan Advantage Program. Offers loans of up to \$250,000 with interest rates typically equal to the prime rate plus 2.75%. It's geared toward businesses in underserved markets.
- **Community Advantage.** If your business serves a lower-income community, you may qualify for the Community Advantage pilot program, which also guarantees loans of up to \$250,000. The program's loan rates vary, but they're generally about prime plus 4%.

ADVANTAGES

High loan to value. You may be able to borrow up to 90% of the loan's value for real estate purchases for your business.

Guaranteed loans. Your loan is backed by the SBA so lenders will be willing to take more risk than normal, potentially saving you money.

Longer terms. You can often get up to 25 year terms for commercial real estate mortgages. This can save you money and lower your payments without the normal balloon payments that often accompany traditional commercial loans.

DISADVANTAGES

Time consuming. On average, SBA loans can take longer to finalize, up to two additional weeks in many cases.

100% collateralization. You are required to collateralize the loan up to the entire borrowed amount. This means that your business inventory, receivables, equipment and home can be on the line if your business is unable to repay.

Prepayment penalties. You must make sure you read the small print that discusses prepayment penalties. The penalties vary by loan program but each may have a prepayment penalty that can cost you money if you want to pay off the balance owed early.

SBA LOAN EXAMPLE

Anish operates a successful market in his neighborhood. His sales have increased year in and year out over the last five years and his customers have been asking for a service counter for fresh meats and seafood, which means an expansion. After reviewing his options, he decides to apply for an SBA Express Program loan that can be used to purchase equipment and finance expansion. He applies for a \$320,000 loan, putting his business receipts, equipment and home up for collateral. The lender agrees to finance the loan for 3.5% above base for 10 years and Anish gets his loan approved in 36 hours so he can start work on the new footprint for his business.

- MICROLOANS -

In the banking industry, a microloan is any loan in the \$500 to \$100,000 range. Typically they are between \$35,000 and \$50,000. These loans can be used for everything

from purchasing equipment, inventory, machinery, fixtures, furniture and supplies to buying another business. Loans are available depending on the location of the business and the intended use of funds/loans. Most lenders can finance a maximum of 75% of the total business project.

HOW DOES IT WORK?

Microlenders have varying requirements regarding the terms of the loan. A loan term can range from



two to six years, with favorable interest rates and varying collateral requirements. Most microlenders require a personal guarantee by at least one of the business' owners. For startups, you will be required to submit a business plan. Make sure the plan looks professional and conveys how you are going to make money, something the lender will be expecting to see. For established businesses, you will need your profit and loss statements along with other financial information as requested.

In some cases, the lender will want you to fulfill certain business training and planning requirements (which vary) before you can submit an application for a microloan.

ADVANTAGES

Less strict qualification. It can be easier to obtain a microloan when you have less than stellar credit or insufficient business experience. The lender will look at your character as a borrower more closely than a regular bank would.

Limited borrowing amounts. These can be great starter loans because the dollar amount is smaller. There is less risk and a higher likelihood the lender will be repaid.

Favorable rates and terms. Because most of these loan programs are local in nature and created through grant funded revolving loan programs designed to strengthen communities, you are able to get better rates and terms than traditional bank financing.

DISADVANTAGES

High costs. In order to cover the costs of administering the loan, microlenders need to charge more despite the loan amounts being smaller. It basically costs just as much to issue \$1,000 as it does \$100,000.

Stricter criteria. The revolving loan funds can be subject to certain requirements on which businesses qualify, how much they can lend and even where they can lend.

Potentially higher interest rates. Depending on your business qualifications, microloans can charge rates above normal bank financing.

MICROLOAN EXAMPLE

OlyKraut is a small, woman-owned, gourmet sauerkraut company in Olympia, WA that began in 2008. Early on, the owners took advantage of training from Enterprise for Equity that led to microloan funding for expansion. Enterprise for Equity, offers a full menu of business training, technical assistance and support services to low-income entrepreneurs. The owners started their small enterprise on a shoe string and once their product became popular, used two consecutive microloans under \$10,000 to expand production with a kitchen upgrade and some additional equipment. They recognized that honoring their values by sourcing locally, using only organic ingredients and paying their employees well would give them an edge in the market. The infusion of cash was vital to the company's success and enabled them to grow. In 2009, they purchased 1,400 lbs. of cabbage from local farms, and in 2015 that number reached 50,000 lbs and that number continues to grow. The amount of local produce purchased as a measure of success is as important to them as the financial bottom line.

- RETIREMENT ACCOUNTS -

If you're looking for funding, your retirement account could be a source. This includes your 401(k), 403(b) and traditional IRA. The thought of using your retirement fund can be a scary one, depending where you fall in your career and how far away your golden years are. Additionally, with 401(k) and 403(b) distributions, you may incur early

withdrawal penalties and have some additional tax exposure.

However, there can be a way to avoid this by using Rollovers as Business Startups (ROBS). As defined by the IRS, ROBS are a way to optimize the use of money in your retirement plan account to start your business. It works if you have a 401(k) or other qualified retirement plan account with a balance that's sufficient for your funding



needs and you adhere to the tax rules. These funds can be used without triggering any penalties or creating a taxable event. The process can be complicated, so it is important to consult your tax adviser or an experienced ROBS specialist that can assist with the transaction.

HOW DOES IT WORK?

The process for withdrawing funds from your retirement account can vary, but your financial services company will be able to provide you with the necessary paperwork. To use the ROBS option, you will need to form a C Corporation and conduct a valuation to establish a stock price. If you're a new company, this value equals the initial capital

invested. Once this is complete, you can create a qualified 401(k) or profit sharing retirement plan and roll your own 401(k) into the plan and elect to use it to purchase company stock. The resulting stock purchase funds can be used to finance business operations.

ADVANTAGES

Not a taxable event. By using ROBS, you avoid immediate taxation on retirement plan funds instead of incurring penalties and possibility tax liabilities.

No debt. Since you are borrowing from your own retirement funds, there's no debt to pay. You get access to the money you need.

DISADVANTAGES

High risk. You are putting your retirement at risk if your business fails. Do not take this decision lightly.

Complex tax issues. These plans have strict criteria and if you do not follow the requirements the distributions can incur taxes and penalties.

High costs. You will be charged a fee to have a company set up your ROBS. You need to set up a C Corporation, maintain the company, and do annual reporting and any other ongoing maintenance. Because these are ongoing costs, it generally doesn't make sense to do a ROBS for amounts below \$50,000.

RETIREMENT ACCOUNTS EXAMPLE

Eric and his wife wanted to open a coffee shop and roastery. After working for 25 years, he had a nice nest egg of \$250,000 in his 401(k). In researching financing options, he came across ROBS. Because the process was so complex, he engaged a Bellevue, Washington financial firm to help him set it up. The fees were nearly \$5,000 upfront plus a monthly "advisory" fee to help ensure that his use of ROBS was compliant with stringent IRS regulations. With ROBS, Eric was able to purchase the property for his business from the owner and do the necessary renovations required to open his new business.

- LIFE INSURANCE -

Life Insurance can be a valuable tool to protect your family, but did you know that you can use it to fund your business? Through a whole life insurance policy, you can get

both insurance and an investment component. The insurance component pays a stated amount upon death of the insured. The investment component accumulates a cash value that the policyholder can withdraw or borrow against.

A whole life policy is more expensive than term insurance but has no expiration date. The term lasts the lifetime of the insured as opposed to the cheaper option, term insurance, which lasts only for a specific term. While the monthly premiums



A Purple Heart just proves that you were smart enough to think of a plan, stupid enough to try it, and lucky enough to survive.

may be higher, the money paid into the policy that is beyond the death benefit is invested by the life insurance company, creating a cash value after a few years.

HOW DOES IT WORK?

The whole life policy increases in value through investment and your monthly premium payments. Over time, there are two values in your policy: the face value and the cash value and you can get loans against the cash value portion. You do not need approval for this loan and there is no credit check. You don't even need to tell the insurance company what you plan to use the money for. Just remember that while the money is a loan and isn't taxed, you will have to pay the money back with interest. However, the rates can be much lower than any bank loan and there is no mandatory monthly payment.

With a term life insurance policy for the purpose of securing a business loan, you, the business owner, are the insured person and can also be the owner of the policy. You pay the premium for the policy. The bank or lending institution is the primary beneficiary while the loan is outstanding. If you pursue this type of life insurance, you'll need to sign a loan collateral assignment form to assign the bank as the recipient of the policy's death benefit as long as the loan is in effect. Usually the bank will work with the insurance company to coordinate the execution of the form.

ADVANTAGES

Lifetime protection. Your premiums remain the same throughout your life. It doesn't expire or go down in value.

Low interest rates. The interest rates for borrowing against the policy are below that of a bank and the repayment terms are favorable.

Flexible terms. You may borrow the funds for any reason with flexible repayment terms. The funds are secured against the death benefit of the policy.

DISADVANTAGES

High costs. The premiums to get whole life insurance are expensive compared to term life insurance.

Cash value is minimal for several years. This is not a near term strategy. Your premiums are high and your cash value grows slowly over time. It can potentially take 10 to 20 years for your cash values to equal the amount of premiums paid into the policy. This is not a short-term solution.

Potential tax liability. Outstanding loan balances may trigger tax implications if you borrow more than you've saved (due to growth) and choose to cancel or surrender your policy at a later date.

LIFE INSURANCE EXAMPLE

Home economist Doris Christopher had her big idea in 1980. From working with homemakers, she knew that women needed timesaving tools to make cooking quick and easy. Seeing the success Tupperware had with its business model, she developed her own multi-level marketing business plan. With the \$3,000 she borrowed from her life insurance policy, she started The Pampered Chef. By 2002, the company had grown into a \$700 million business and was eventually sold to Berkshire Hathaway Corp. for \$1.5 billion.

- VENDOR FINANCING -

If your company purchases inventory or equipment from a vendor, you may be able to turn to vendor financing as a funding option. In its simplest form, the vendor lends you money in order to buy their product. It may be in the form of third-party vendor financing or in-store credit. Both let vendors offer more lenient and extended terms to

their good customers than they could otherwise. It is also designed to let a customer purchase more materials or products than they could with just a credit card or deferred payment plan. This is particularly effective if the borrower has less than stellar credit.



HOW DOES IT WORK?

There are two types of vendor financing:

• Third party vendors. The terms can range from 60 days to 12 months, depending on the size of the order and your relationship with the company. Vendor financing is a great way to acquire inventory, but it usually requires a solid relationship between the buyer and seller. Typically, financing amounts range from \$5,000 up to millions of dollars. You can then use the funds to purchase equipment, inventory or service-related product from the vendor. Repayment will be in the form of fixed payments from gross sales or a percentage of credit card sales. You will be given the loan based on the historic performance of your business.

• In-store credit. This allows you to get extended payment terms on a major purchase. For example, you can get building materials at Home Depot for 24 months interestfree when you spend a certain amount there. Just be sure that you pay the balance in full before the terms end to avoid sky-high interest costs on the back end. These lines of credit are easy to apply for at many box stores.

ADVANTAGES

Lessened credit criteria. Your credit is not a major concern for vendor financing. The loan is based on performance. Basically, all credit standings are accepted. When you are just starting out, you can use the repayment of these loans to start or continue building your credit.

Promotions, discounts and other perks. You can take advantage of discounts and up to 24 months with no interest on certain purchases. This can be a low cost option for getting financing, but make sure you read the fine print before you sign on the dotted line so you know exactly what you're getting into.

Fast approval. You can get approved in as little as two business days with your funds available within five to 10 business days.

DISADVANTAGES

High interest rates. Store credit cards can have up to 26% interest if you don't meet the terms. Most people get hooked on the low introductory rate only to hit the wall on the back side when they don't pay it off on time and owe the balance plus all accrued interest.

Fine print. Keep an eye on the due dates and be early in paying off the loan. Don't take it down to the wire.

VENDOR FINANCING EXAMPLE

Doug owns a large business and needs to purchase inventory from a major supplier that tops out at \$1 million. He only has \$100,000 in cash on hand. The vendor offers to lend him \$900,000 at 6% interest to make the rest of the purchase. To back the loan, they want collateral, such as his current inventory or a claim on Doug's cash accounts to ensure payment.

- LEASING -

Equipment can suck up cash flow in any company. If you need to make major purchases, and don't want to tie up your cash, leasing may be the way to go. This allows you to add new equipment without having to empty your bank account. This can be perfect for cash strapped companies. In many cases, equipment leasing resembles the loan you would take for purchasing. You get full



use of the equipment but on a long-term rental basis. The best part is that ownership rests in the hands of the financial institution or leasing company, so they are responsible for the overall condition and repair of the equipment if you have a maintenance plan included in your agreement.

Leasing is easier to get approved so if you have bad credit, it may be an option to get the equipment you need while your credit rebuilds. The process is quick and easy. At the end of the lease, the business may purchase the equipment for its fair market value (or a fixed or predetermined amount), continue leasing, lease new equipment or return it.

HOW DOES IT WORK?

Typically, lease terms are long term, from three to five years with interest rates from 6% to 16%. The leases are offered by the manufacturers or by third party vendors. Make sure

to shop around for rates to ensure you are getting the best deal. The process will include a background check of your credit and business operations. Once your credit is approved, the process moves very quickly and you can have lease approval within minutes. Every type of equipment and lease will be different so make sure to look at prepayment penalties, rights and restrictions on the item and other major terms.

ADVANTAGES

Less cost upfront. Since you are not purchasing the equipment, you are able to save your available capital for other areas of the business while getting full use of the equipment, machinery or other leased item.

Tax deductible. Uncle Sam allows for all of your lease payments to be deducted as business expenses on your tax return. This can save you thousands over time.

Flexible. Since you are not purchasing the equipment, leases are usually easier to get and the terms can be more flexible. This is perfect if you have less than stellar credit.

Easier to upgrade equipment. If you are in an industry where equipment needs to be upgraded frequently, leasing can help you avoid the high cost of obsolescence.

DISADVANTAGES

Higher overall cost. It will be more expensive over the course of time than an outright purchase. Paying cash is usually the less expensive option when all is said and done if the equipment isn't going to be outdated soon.

No ownership. You are merely paying rent on the equipment and never building equity. You can't sell it or borrow against the equity if it was needed.

Lease contract. You are bound to the terms of the lease contract and the payments are still owed whether you use the equipment or not. You can technically terminate but there is usually a large prepayment penalty.

LEASING EXAMPLE

Stephanie owns a small excavation company and just landed a large client with multiple jobs over the next couple years. She doesn't own the equipment necessary to complete the work. She will need \$250,000 to purchase the equipment. She goes to the bank for a loan but is denied since the piece of equipment isn't something she has historically required in her business. She needs the cash on hand for operating expenses until these projects get billed. She talks to the manufacturer and works out a lease arrangement. She does not have to make a down payment and gets the equipment in time to start on the first project for the client.

- GRANTS -

 \mathbf{A} grant is money that is given to a person, business or corporation from federal, state, county or local governments or private businesses or corporations. The money does not have to be paid back, however, it usually comes with strings attached, such as milestones, reports or deliverables. Plus, it's not really free, since it takes time and resources to draft a solid grant application and you may even want to bring in a grant

writer to help you prepare it. Grants are available for all kinds of small and online business owners: women, veterans, disabled Americans, minorities, and other underrepresented groups.

HOW DOES IT WORK?

The first step is research. You need to know the options out there and sift through a lot of grants to find the ones that best fit your business. Grants have specific requirements, dollar amounts, deadlines and



other important information that you will need to be aware of. A good example of a business grant is one offered by the Small Business Administration. Their Small Business Innovation Research Grant encourages businesses to engage in federal research and development to explore technological innovations that can be commercialized.

The best place to start looking for grants is www.grants.gov. This site lists all grants available from government agencies. Make sure you read the eligibility requirements

so you don't waste your time on a grant you not are qualified for. There are also paid subscription sites such as www.grantstation.com that sift through all private, business and foundation grants that can save you time and help you identify which grants fit your business. Finally, check out the grants listings on Startup.ChooseWashingtonState.com.

ADVANTAGES

There's no repayment. This is music to most people's ears. The money you get does not have to be repaid and can help move your company forward.

Easy to find. Thanks to the Internet, finding available grants and RFPs is easier than ever. If only applying for them was easier.

Proof of concept. Different grants will even fund your proof of concept depending on what type of industry you are in.

DISADVANTAGES

Strings attached. Nothing is free. Different grants will have different requirements and reporting elements that can take significant amounts of time to complete.

Time consuming. The application process can take months to complete. It can be a steep learning curve.

Waiting for response. It can be several months before you hear back about whether the application was accepted. This unknown can wreak havoc on your business.

Match is often required. Many government grants now require a match either in hard dollars or in-kind services.

GRANT EXAMPLE

A minority-owned business, XLfeet served a unique market — men who wore large size and wide shoes, up to size 21 and 6E. With limited access to lines of credit, the company needed to expand its shoe line from its current four models, including only one dress shoe style, to draw more customers. A microgrant of \$1,000 allowed the company to add eight more styles to its online shoe store and open a brick and mortar store. Annual sales went from \$5,000 to \$100,000 annually, thanks to this one grant.

- BUSINESS PLAN COMPETITIONS -

If you're an entrepreneur, a business plan competition may just be the ticket to get you much needed funding. Prizes can run the gamut from small awards in the \$5,000 range to ones that dole out six-figure prizes every year. Others offer additional perks, such as free office space or mentoring.

Business plan competitions are a lot like an interview combined with your elevator pitch. You have a set time in

front of the judges to explain your plan. You are then judged on its merits against other competing firms. Competitions all over the country are sponsored by colleges, investors and economic organizations. The website www.bizplancompetitions.com lists more than 400 competitions nationwide.

HOW DOES IT WORK?

The format of a business competition can vary as do the prizes, so shop around before you enter a competition. Preparing for a competition can be very time consuming, which is another reason to be selective. Once you are before the judges, you will be asked to make your pitch, so stay focused, specific and compelling. After your pitch, you will be asked questions. Use the opportunity to gain valuable feedback from the judges. It is as much about learning as it is winning, and even if you don't win a cash prize, you can

get valuable feedback to take you to the next level. Remember too that investors may be in the audience. Use the competition to increase awareness of your idea and plans. You just never know who may follow up with you, winner or not. Whatever you do, make sure you practice and refine your pitch. Have people poke holes in your idea and get used to fielding the questions that may come up in the competition.

ADVANTAGES

Feedback. The judges will give you valuable feedback during your pitch. Listen to the advice and heed it to shore up holes in your plan.

Connections. Business plan competitions offer a terrific opportunity to network with investors, other business professionals and potential partners.

Visibility. Many competitions receive extensive media coverage, including industry trade publications. Use the competition to build awareness about your company and its offerings.

Money and perks. While winning isn't necessarily the reason to enter, winning is nice. Depending on the competition, you can win prize money, office space, the chance to pitch to a larger pool of investors, free mentorship, etc.

Moving the sticks. Competition deadlines can force you to become more focused on moving your idea to market. It can help you crystalize your thinking, refine your elevator pitch and compress your milestones.

DISADVANTAGES

Time intensive. Preparing for a competition is not a casual undertaking. You need to do your research, punch holes in your idea, practice your pitch and have responses to questions. This is time you may be taking away from the business of your business.

Exposing your ideas to others. There are plenty of ears listening at business plan competitions. A participant or audience member could become your competitor down the line.

Equity. Bigger prizes may mean that you'll need to sign over a percentage of your equity, which ultimately could be a deal breaker.

BUSINESS PLAN COMPETITION EXAMPLE

Emily, a Quileute tribal member from LaPush, Washington had grown up as the daughter of a commercial fisherman who made a living fishing and crabbing for more than 30 years. She wanted to own her own business and continue to work with her father and benefit from his years of expertise. She heard about a business plan competition established by the Nature Conservancy in collaboration with Pinchot University Center for Inclusive Entrepreneurship and submitted an application. The competition included an ideation event, a business readiness workshop, a pitch clinic, and other forms of technical assistance from experienced business advisors to develop and refine their business concepts. All the participants were pushed outside their comfort zone but welcomed the positive and nurturing environment filled with mentors and volunteers. Competing with 11 other finalists who had completed the program, Emily won the first-place prize of \$10,000 for equipment and supplies to launch Lonzo's Seafood Company, offering smoked Quileute-caught fresh salmon.

- "FARMER'S" MARKETS -

These markets go by many names: community markets, local markets, neighborhood markets, craft markets and, of course, farmer's markets. Some of these markets are

extremely popular in communities and vendor stalls are curated to keep an appropriate mix; others are much smaller and their rules more fluid. Still others are crop based and allow only products that can be consumed.

Even so, there have been many businesses started with the profits from these weekend



it is dressed in overalls and looks like work.

markets. They can offer you a low buy-in and a good testing ground to refine products, adjust pricing and research the ideal audience. Plus, they have a low cost in terms of marketing, since the market itself is the draw. You just need to hone your pitch and patter to get shoppers to stop by and view your wares.

HOW DOES IT WORK?

Before you ever fill out an application you should research the different markets around you. Visit them on weekends and see what types of products and services vendors are offering and try to find a market that fits what you are selling. Keep in mind that the goal of most markets is to showcase local growers, food and beverage retailers and handcrafted items. Many markets require a season-long rental and many have a waiting list, so this is not a short-term solution for getting your business up and running. In addition, you need to decide if you can commit to an every weekend presence at the market. That means setting up your stuff early in the morning, manning the booth throughout the day, and taking it all down each night. Also, many neighborhood markets will want to take a cut of your profits in addition to the vendor fees and most communities require a business license and inspections, if you're selling food or beverages. The application process is pretty straightforward. Some markets require photos of your proposed booth set up or samples of your products to see if they fit the market's overarching mission and intent.

ADVANTAGES

Inexpensive market research. If your product is in its early development stages, a market can be a good place to test it and get feedback from prospective customers regarding the product itself, packaging, pricing, quality, etc.

Local visibility. Finding the right customer can be one of the hardest things a business can do. A market can help you build a loyal customer base that will follow you to your next location, including a brick and mortar operation.

Business skill builder. The organic nature of these markets makes them a perfect place to refine your customer service skills, master mobile credit card payment systems, improve marketing strategies and optimize inventory control systems.

Convenience. If your product tanks, you can close shop. There usually aren't any penalties for closing your stall as others are waiting in the wings to take your space.

DISADVANTAGES

Time intensive. You have to give up weekends. That means an early morning start and a late end to the day.

Costly. A nice tent, signage, equipment, mobile payment systems and sufficient inventory can set you back. Additional fees may be involved, including a business license, food permit (if you're selling food items) and fines if your food handling isn't up to snuff. Plus, you may have to share a percentage of your receipts with the market association.

Commercial kitchen. If you are selling consumables, local laws may require you to use a commercial kitchen instead of your home. Often, there is a threshold where you have to make the jump. Just be sure to check local regulations to ensure that you're in compliance.

Competitive. As noted, the best markets have a waiting list. You may have to wait a year or more to secure a spot, and even then, you may be starting in one of the less trafficked areas.

FARMER'S MARKET EXAMPLE

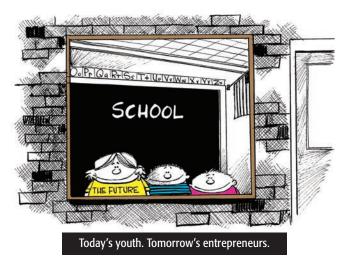
CB's Nuts didn't exactly start out in a market, but they did get their start in a tent across from Safeco Field and at one point, had a periodic space in front of the Pike Place Market. The owner was crazy about baseball and fresh peanuts but couldn't find them at Mariner games. So he purchased a hobby-level roaster and figured he'd make enough to score game tickets and a couple beers. As he learned his market and his craft, he invested in antique roasting equipment, which gave his peanuts a richer flavor. Eventually, he was selling so many bags of peanuts that he purchased an old fire station in Kingston, Washington to keep up with demand and branched out into selling other roasted nuts and seeds. Eventually, CB's Nuts expanded into retail, including a signature peanut butter with only one ingredient (can you guess what it is?).

- LEMONADE STAND -

Don't laugh. Some of the most successful entrepreneurs earned their first dollar by selling lemonade to thirsty neighbors or people who thought they were just too darn cute to say no. Children are natural entrepreneurs. Look up "kid entrepreneurs" in Google and you will find a list of

you will find a list of adolescent millionaires who started their own business, many of them with a lemonade stand.

Simply put, a lemonade stand is a part-time business owned and operated by children for the purpose of making money so they don't have to ask their parents for money to buy their next Ipad.



They often set the business up for fun, but many lemonade stands (or bake sales) are used to raise money for schools, cancer research or sick pets. Lemonade stands represent the most innocent, optimistic side of capitalism.

Tech entrepreneur Michael Holthouse wanted lemonade stands to be more than just fun and making money. He wanted to introduce the next generation of serial entrepreneurs and teach kids the basics of business. To him, lemonade stands were not just about raiding a parent's pantry and putting out a sign and smiling at pedestrians. He wanted kids to understand the concept of spending, saving and sharing. He wanted them to understand about profit and loss. Holthouse came up with the idea of having a national lemonade day after an encounter with his daughter who wanted money for a pet turtle. This resulted in starting National Lemonade Day, a fast-growing program that educates kids about running a business long before they enter adult life. The annual event, which takes place on different dates throughout the year in hundreds of cities in the U.S., Canada and South Africa, walks children through a 14-step, month-long process to create a business plan for a lemonade stand and turn it into a real, money-making venture, with a parent or mentor's guidance.

HOW DOES IT WORK?

Start by taking a trip to the grocery store and purchase supplies with your own money or a loan from your parents. Once you have your supplies, figure out how much lemonade you need to sell to actually make a profit. Pick a sunny day, make signs and set up a table with the help of your friends or family. Place signs in strategic locations where the most people will see them. You will want to test the lemonade first to make sure you get the taste right. Too sour or too sweet will not encourage repeat sales. Then, when the day arrives hope for sun and thirst and remember to look cute.

ADVANTAGES

Instills entrepreneurship skills early. Entrepreneurship teaches youth how to navigate their vulnerabilities in order to stay safe and successful.

Independence. Starting a lemonade stand gives youth the opportunity to make decisions and learn from those decisions.

Learn about money. Teaches the value of money and its management, including how to make change and how to establish profit levels.

Promote skill development. Starting a business at a very early age will teach you skills that will be beneficial in other walks of life as well from school to social graces.

Gets kids outside. A lemonade stand gets kids away from video games and other homecave activities. Be sure you put sunscreen on them; they may have never been outdoors that long.

DISADVANTAGES

Bad weather. One thing you can't predict is the weather. Be prepared to postpone your business opportunity if the weather prevents the walk up traffic you hoped for.

You may not make a profit. Not all lemonade stands make money. Your location could be off the beaten path or your marketing may have failed. Either way, you may have to try a second or third time to get it right. Fortunately the risk is low; a few dollars and a wasted day.

Local health rules. Local health departments may have different regulations relating to selling food or beverages even from your own lemonade stand.

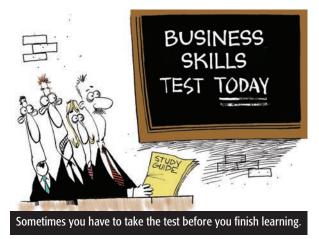
Unrealistic goals. You may make less money than you expected and may not end up with that Ipad you have your heart set on.

LEMONADE STAND EXAMPLE

At just 11-years-old, little Mikaela Ulmer launched her own lemonade stand. After getting stung by a bee, she and her mom did some research and decided to switch to local honey as a sweetener instead of sugar. Her story landed her a spot on Shark Tank where sharkpreneur Daymond John invested \$60,000 into Ulmer's BeeSweet Lemonade. One year later, BeeSweet's initial regional distribution deal with Whole Foods had morphed into a national deal through United Natural Foods, worth \$11 million. BeeSweet Lemonade is now available at 55 Whole Foods stores, from Texas to Oklahoma and Arkansas, Louisiana and New York. A portion of the profit from Mikaela's lemonade funds research to find ways to reverse the dwindling population of honey bees.

- MICROENTERPRISE DEVELOPMENT -

Designed initially to create lending opportunities for people with low incomes, microenterprise development requires the entrepreneur to go through a training or business loan program in order to get a loan. Most major cities have these programs, which are offered through a network of nonprofits called Microenterprise Development Organizations or MDOs. These loans, which



are typically under \$35,000, are for entrepreneurs who have less than six employees who need to purchase equipment, inventory, fixtures, furniture or supplies, restructure debt or advertise in order to expand their business. Depending on the funding requirements, loans can be financed up to 100% of the loan.

HOW DOES IT WORK?

Microenterprise Development Organizations hold classes and workshops throughout the year. By enrolling, entrepreneurs can qualify for conventional financing they may never have been able to access. Courses cover such topics as how to understand a credit report, how to improve credit scores, manage budgets, save money and handle risk. Loans as low as \$500 are repaid in six months and larger loans up to 3 to 5 years. Collateral is required for loans in the higher range. A business plan is required before accessing a loan, however, some programs only require proof of concept.

ADVANTAGES

Plan on paper reduces risk. Taking the time to develop marketing, cash flow and operations plans is always a good idea. Doing this as part of the coursework encourages you to reflect, test assumptions, build in time for research and ensure the final plan is complete and viable. These classes help build that discipline and follow-through.

Learn in your own community. These programs often hold classes where the entrepreneur can learn business tools and skills in small groups with their peers. Being self-employed can be a lonely pursuit and the journey long. These classes can help you build a network of other business people who can provide valuable feedback and the opportunity to test ideas in a safe environment.

Better chances for financing. The goal of these programs is to improve your credit worthiness and acquire the skills lenders are looking for in a borrower. By knowing what you're getting into up front and solidifying your business plans, you will have an easier time getting a loan because the lender will believe you have the ability to pay it back.

DISADVANTAGES

It takes time. Completing these programs is a lot of work. Programs can be up to three months long and the work is intense, since the goal is to instill discipline and process into your business planning activities. This is time and energy you will be taking away from actually starting the business.

Financing isn't guaranteed. Entrepreneurs discover the risks and limitations in their thinking and their strategy when they methodically move through the process of writing a business plan. It can be disappointing if you come to the conclusion that the business is not practical or the lender decides that for you.

Loans are relatively small. These are microloans after all, and in some cases it is hard to stretch out the loan to cover start-up costs when there are so many priorities.

MICROENTERPRISE DEVELOPMENT EXAMPLE

Selma received a microloan under \$10,000 for her yogurt company after she completed a business planning program. She originally had planned to raise sheep but after working out the numbers in the Enterprise for Equity's business planning program, she decided to pursue her earlier dream of selling healthy yogurt in collaboration with a dairy next to her farm. After testing several different flavors of yogurt with customers in Independence Valley she began marketing the people's choice under the Flying Cow Creamery brand. She is now selling her product in many stores in the region in returnable glass jars.

- INDIVIDUAL DEVELOPMENT ACCOUNTS -

Offered through the Corporation for Enterprise Development, this is a special savings account for people with low incomes where the money saved is matched through

donations. That means you can receive a dollar or more for every dollar you save in an IDA and this money can be used to start a small business. In addition to the matching funds, you are able to learn more about budgeting. banking and saving when you open an IDA. In most cases, additional education is required as part of the program. One-on-one counseling may also be available. There are hundreds of these programs offered in



the U.S. and no two are alike. So feel free to shop around to find an IDA that meets your individual needs.

HOW DOES IT WORK?

IDAs are offered through a partnership between financial institutions and local nonprofits. As the sponsoring organization, the non-profit provides the education as well as counseling and training. As a participant, you open an account with the partner bank or credit union, which handles the financial side of the IDA. Each month, you receive a report telling you how much money is in your IDA, including the money you put in, any matching amounts and interest. You can withdraw money as soon as you reach a specific saving goal but you must first get approval from the IDA program sponsor. The goal can be for something major, such as a home or a business, or something smaller, such as college tuition and textbooks.

ADVANTAGES

Range of services. In addition to a savings account, you can access other programs related to starting and managing a business, such as classes on managing cash flow and preparing tax returns.

Match rates. IDA programs match each dollar you save with additional funds from donors. Many programs offer a 1:1 match rate, which means that for each \$1 you deposit in your IDA, \$1 in matching funds will be added to your savings. Depending on the program, though, match rates can be more or less. For example, the Mercy Corps NW IDA match savings program operates on an 8:1 match ratio. This means that every dollar you save in your IDA, they will match it with \$8 in additional grant monies.

Reasonable savings period. The savings period will vary from program to program, but most savings periods range from 1 to 3 years. This period indicates the length of time your savings will be matched.

Uses of match dollars. Most IDAs allow you to use the savings to buy a home, pay for education or job training or start a small business. But programs vary, as do what they allow you to use the money for. Be sure that you know all of the uses that each program allows before enrolling.

DISADVANTAGES

Limits to the amount of match. Some programs will only match up to a certain dollar amount (for example, \$500) on an annual basis or during the course of the program. In most cases, you can deposit as much as you like in your account, but savings over the limit will not receive matching dollars.

Class attendance is mandatory. Most programs require you to attend a certain number of classes so that you can learn more about setting and managing household budgets, using credit responsibly, the basics of saving and investing, etc.

Different rules and restrictions. IDAs are not all the same. You will need to spend some time researching the different programs so you can find the one that is the best match for you. Different hosts have different rules. For example, some faith-based IDAs may require regular church attendance as part of the match.

Not available everywhere. IDAs aren't widespread. Some communities may not have an IDA program, so you may have to go outside of your community to be part of an IDA. The CFED provides a map to identify IDA programs at http://cfed.org/programs/idas/ directory_search/

Eligibility Guidelines. Eligibility is based on all or some of the following information: earnings, net worth, income and credit history.

INDIVIDUAL DEVELOPMENT ACCOUNTS EXAMPLE

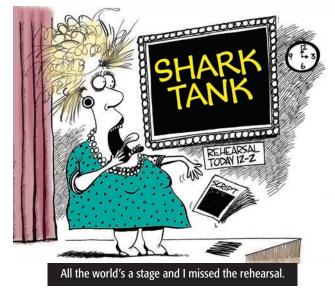
Sunny Suppa had a dream. She wanted to start a business creating clothes for petite women like herself. But with less-than-stellar credit and no savings, she felt stuck in an economic dead end. Through an entrepreneurship program, she learned about Individual Development Accounts and quickly started one with CFED's partner, Opportunity Fund in San Jose. For every \$1 that Sunny saved, an extra \$1 to \$3 was put into her IDA from nonprofit and federal funds. Sunny earned \$6,000 through her IDA savings, and became sole owner of $5ft2in^{M}$ - an apparel company that specialized in pants for women 5'2" and under.

- SHARK TANK -

Okay, so we made fun of Shark Tank at the outset. But Americans are enthralled with two things: reality shows and get-rich-quick business ideas. Shark Tank marries the two

perfectly and has been on TV since 2009. In case you've been vacationing on Mars, Shark Tank lets aspiring entrepreneurcontestants make their business pitches to a panel of "shark" investors, who then choose whether or not to invest.

For many entrepreneurs the idea is not just to make a deal with a shark but to get on the show and showcase a product. Many



entrepreneurs have walked away from the show without a deal but went back home to find orders that made them millionaires. Studies show that just being on Shark Tank is worth \$4 to \$5 million in free marketing exposure. In many cases, the value of getting airtime on the show even outweighs the benefits of taking a deal with one or more of the "sharks", which typically requires giving up a precious amount of equity.

If you believe your company can make the cut, definitely invest the resources to get on the show. The eight million viewers and the potential for an investment are worth it.

HOW DOES IT WORK?

The show features a panel of potential investors called "sharks" who consider offers from aspiring entrepreneurs seeking investments in their business, product or service. The sharks are paid for their participation in the show, but the money they invest is their own. The entrepreneur can make a deal right then and there on the show if a panel member is interested. If the sharks pass, the entrepreneur leaves empty-handed. The show is said to portray "the drama of pitch meetings and the interaction between the entrepreneurs and tycoons." A one-hour pitch by a contestant is edited down to a dramatic 10-minute segment.

Getting on the show is not easy. Last year, 40,000 people applied; out of those, 180 made it on the show. Clearly, the competition is steep. But before you even get close to being considered, you must complete a 15-page application that includes questionnaires regarding your business, intellectual property and various releases and agreements. As of this writing, the wait time for Shark Tank was about 18 months.

ADVANTAGES

Show me the money. Deals can be in the millions if you are one of the chosen. The exposure alone can mean your phone will be ringing off the hook as soon as the episode airs, even if you are sent packing without a deal.

Advice from the expert. The five sharks will give you plenty of free advice about your business, valuation, product, markets and pricing. This alone can make the time well spent.

Millions of potential customers watching. Getting free air time on television is a gold mine regardless of whether you get a deal or not.

Instant gratification. After appearing on the show, most participants saw their web sites light up with orders. For example, CoatChex's website received 1,000 hits each second. The prime-time exposure can lead to millions of dollars in revenue. Already this season, two businesses managed to snag \$1 million in sales within 48 hours of appearing on air.

DISADVANTAGES

Be prepared. The sharks are well versed in the business world and they ask tough questions. If you show a sign of hesitancy they will eat you alive in a potentially embarrassing exchange.

Mr. Wonderful is not so wonderful. You have to be able to withstand being insulted in front of eight million people. Your mother may disavow knowledge of your existence.

Experts versus amateurs. You will be negotiating without a lawyer or an accountant. Plus, you have less than two minutes to make a decision. Even criminals have a lawyer and are allowed time to think about a deal.

It ain't over till a contract is signed. That said, the deal isn't really a deal on the show. Both sides enter into a period of due diligence to see if the deal makes sense. The shark or the entrepreneur can walk away if the deal isn't right for them.

SHARK TANK EXAMPLE

There are many successful stories that have come out of the Shark Tank. But according to *Business Insider*, the biggest success story was about a little sponge that weighed less than an ounce. ScrubDaddy is a scratch-free cleaning tool. The company that created it had struggled to reach \$100,000 in sales over 18 months, but QVC's Lori Greiner saw great potential in the company's signature offering, a proprietary smiley-faced sponge that was more durable, hygienic and effective than a traditional one. For \$200,000 in exchange for 20% equity, she helped the company expand its product line and brought them onto QVC and into stores like Bed, Bath & Beyond, where they have become bestsellers. Over the past three years, ScrubDaddy has brought in a total of \$75 million in revenue. A great idea with the right exposure and investor really can make dreams come true.

- THE LOTTERY -

Sure you could play the lottery, win and forget all about your business idea. But you still may want to do something, even if you're living the life of the rich and famous on Bora Bora. Plus, there are financial advantages that you can use in your windfall as you can

deduct various expenses, set up a self-employment retirement plan with its requisite tax advantages, lower your overall tax liability, and give jobs to your friends and family so they won't continually be hitting you up for a "loan."

HOW DOES IT WORK?

Following are the steps to follow in starting a business with the lottery:



- 1. Purchase a lottery ticket, preferably at an obscure, rural mini-mart in the dead of night. Make sure you sign the back of the ticket immediately.
- 2. Remember where you put your ticket. Wait for the drawing and check your numbers carefully.
- 3. If you lose, repeat Steps 1 and 2.
- 4. If you win, jump up and down for joy. Then redeem your ticket.
- 5. When you claim your winnings, tell the press that you plan to sink every dime into your new business enterprise. This will keep your phone from ringing off the hook as distant relatives you've never heard of come out of the woodwork to ask for money.

- 6. Don't actually do what you said you'd do in Step 5. Never sink every dime into your business. Instead, build your business slowly and deliberately. While you never have to worry about turning a profit, you do have to worry about losing all your winnings in a risky enterprise.
- 7. Skype your staff from the beach in Bora Bora. Make it look like you're having a really rotten time.

ADVANTAGES

Tons of startup capital. Conceivably you could end up with tens, even hundreds of millions to start your dream business.

Tax benefits. Some taxes may be deferred or reduced if they are used to build your business.

No sore thumbs. You won't have time to sit around twiddling them all day. You'll have something to do every day.

Full employment. You can finally get your deadbeat relatives meaningful jobs, so you can not only lord it over them that you are rich, but also become their boss.

DISADVANTAGES

Low odds. The odds of winning the lottery are worse than playing golf on a warm Florida day, hoping lightning will strike you dead.

Bankruptcy. Roughly 65% of all winners lose it all and end up in bankruptcy.

Never knowing where your stuff is. You'll continually wonder if your blue seersucker suit is in your Miami home or your Aspen chalet. Oh, that's right! You left it at the Maui beach house.

LOTTERY EXAMPLE

In 2008, Jonathan Vargas won \$35.3 million in Powerball. He decided to use the winnings to start his dream business: a bikini-clad, professional female wrestling league. Only 19 at the time, Vargas took on some partners who were more than to happy share his good fortune and help him make Wrestlicious the next WWE of the wrestling world. The show, which lasted just a year on TV, even took viewers backstage to JV Rich's mansion (JV Rich was his stage name) and showcased his life as the rapper-owner of bikini-clad wrestling. Vargas went on to make other famously bad investments and it is rumored that he lost all \$35.3 million.

AUTHORS AND ARTIST

Maury Forman is the Senior Manager for the Washington State Department of Commerce. His focus is on creating healthy communities and developing a culture of entrepreneurship in rural areas. He is also the founder and director of the award winning Northwest Economic Development course at Central Washington University where over 2,000 practitioners have graduated. He became the first recipient of the Finkle Leadership Award in International Economic Development for his "integrity, tenacity, and philanthropic spirit in the profession". He has authored numerous popular books including Learning to Lead, The Ten Commandments of Community Leadership, The 25 Immutable Rules of Successful Tourism and The Washington Entrepreneurs Guide. Prior to his work with the Department of Commerce he founded three startup businesses, What's Possible, Reunion Theater and Cartoon Inc.

Jordan Tampien is a Community Economic Development Specialist with Washington State University Extension working primarily in rural areas in Washington State. He is a serial entrepreneur having started businesses in several different industries such as real estate, restaurants and hospitality. He has a law degree and MBA that provide a unique perspective on small business development. He has developed projects throughout the state around access to capital, technical business training, networking and overall sustainability for rural entrepreneurs. He presents at conferences and workshops on various business related topics and serves on panels for business plan competitions and activities supporting entrepreneurs.

Chris Britt has been the staff editorial cartoonist for the *State Journal Register* in Springfield, Illinois, the *Arizona Business Gazette*, the *Sacramento Union*, the *Houston Post* and the *News Tribune* in Tacoma, Washington. Chris's cartoons are syndicated by Creators News Service and are distributed to over 200 newspaper clients nationally and internationally. He has won numerous awards for his work including Cartoonist of the Year by the National Press Foundation in Washington, D.C., and the Sigma Delta Chi Award, one of journalism's most prestigious awards. Chris was also the only U.S. cartoonist to be recognized by the United Nations for his cartoons dealing with the Middle East.

Startup Wisdom Reviews . . .

If you're a business person — or thinking of becoming a business person — *StartUp Wisdom* is an indispensable guide to the most important potential sources for the capital you will need. In concise, fun-to-read prose, with clever illustrations, Forman and Tampien will quickly bring you up to speed on the best 27 capital-raising tools out there. Two hours of reading will probably get you two years of funding.

Michael H. Shuman Author of The Local Economy Solution and Local Dollars, Local Sense

Forman and Tampien have the experience of being entrepreneurs and advocates of entrepreneurship for more than a half a century. Yet their strategies are fresh and creative for modern day entrepreneurs. *Startup Wisdom* offers invaluable options to entrepreneurs everywhere. With small business activity increasing, their advice is spot on. Anyone involved with entrepreneurs or looking to start a new business should read this informative and entertaining welcome addition to the startup literature.

Jack Schultz

Author, BoomTown USA: 7 ½ Keys to Big Success in Small Towns and Founder and CEO of Agracel, Inc.

This is a must-have book for students who aspire to be entrepreneurs! I often find that students don't pursue their business ideas because they can't see past the traditional models of funding that so often preclude them. This timely book is filled with examples of creative solutions that will get them leaping over the financial hurdles.

Anne Nelson

Business and Entrepreneurism Instructor at Walla Walla Community College owner of Drawn2Solutions and Infinite Creativity Consultants

Small businesses have a challenging job getting their business up and running, even before thinking about financing. In *Startup Wisdom*, Forman and Tampien decipher the baloney and the acronyms and give entrepreneurs — and would-be entrepreneurs — what they have needed most: Direct, practical and honest advice on where to find money.

> Mark Barbash Strategic Advisor Council of Development Finance Agencies

Forman and Tampien provide practical advice on the most common question I get when I mentor entrepreneurs — financing the venture. They cover just about every method that's practical, along with helpful advice on the tradeoffs and how to proceed. It's destined to be a "read this" book for aspiring entrepreneurs.

David Giuliani

US Small Business Person of the Year National Entrepreneur of the Year for Manufacturing

The need for more small businesses in our society is great; the propensity of our civilization to fund them is shrinking. *Startup Wisdom* covers 27 nontraditional ways ordinary citizens can raise the money to start a business. Who knew there were 27 possibilities? Forman and Tampien have provided information that fills a critical need and have done it succinctly and cleverly. While most books on raising money are tuned to high tech start-ups and their rarified funders, *Startup Wisdom* gives you a down to earth analysis of all the ways to get funding, including some I had never considered.

Gifford Pinchot Author of Intrapreneuring and co-founder of the first school to offer an

5-jounder of the first school to offer an MBA in Sustainable Business

Identifying trustworthy capital for startups has long been an art, not a science. Serendipity and ideal connections were frequently required. Forman and Tampien are revealing the proven tools that now can help people navigate the financial opportunities and sinkholes of funding a business. You will find hard earned counsel, gained from veterans in the marketplace, from this timely book.

Marc Nager Startup Weekend Co-Founder Former CEO UP Global Entrepreneur in Residence, Techstars