BUSINESS COACHING

Funding my Business

RESOURCE PACKET

The North Dakota Women's Business Center is the leading voice, resource, and partner for women business owners. We are dedicated to amplifying the economic voice of our clients through advocacy and access to critical resources.



NORTH DAKOTA
Women's
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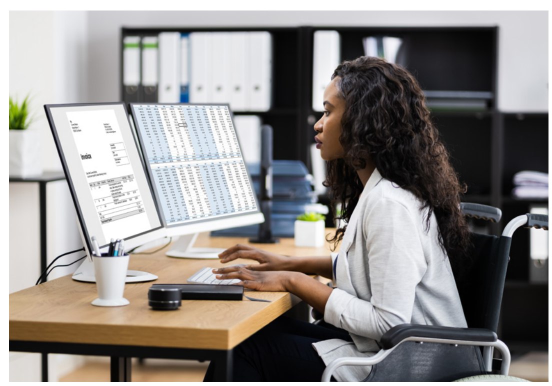
North Dakota Women's Business Center (NDWBC) partners with women business owners by walking them through different business aspects to understand their progress and knowledge. NDWBC is dedicated to providing women business owners with critical resources to equip them to make informed decisions about their business and guide them forward on their journey.





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Questions to Answer

Before financing a business, an owner - the business's largest investor - must know their business inside out - even if it is a new business. By taking the time for your due diligence to understand how a buisness works you will avoid pitfalls and unpleasant surprises that could await your business and your cashflows. Building your financial literacy and being able to answer the following questions will give you the foundation to guide your business and reach your goals.

The questions an owner must know are:

- How much do I need?
- Why do I need this money?
- When do I need it?
- How can I repay it?

If you do not have the answers to these questions, that is okay. NDWBC is here to walk with you on your funding journey. Whether its a business coaching session to find resources, working through your financials, or connecting to subject matter experts, our certified business coaches are ready to help you with any questions.

Knowing My Options

When looking for the capital to start or expand a business, owners have three options: equity financing, debt financing, and alternative funding.

Equity Financing - When companies sell shares to investors to raise capital, it is called equity financing.

Debt Financing - Debt financing involves borrowing money.

Equity Financing	Debt Financing
» Less risk than debt	» Keep full ownership
» No paying back funds	» No obligations after paying debt
» Gain credibility through investor networks	» Interest is tax deductible
» Investors don't expect immediate ROI	» Short- and long-term options
» Fixed payments for better budgeting	» More cash on hand

Equity Financing

Personal Money – Using personal savings or the cash value of life insurance policies are two ways to fund a business. Understand that bootstrapping, like this can take up what would be in cash reserves. If business owners don't have the cash they might run into problems when cashflow gets tight or if there are unforeseen expenses. Business owners who prepare as if they are getting a loan, often appreciate the benefits of having a solid business plan and accurate projections.

Best practice, have a deep understanding of a business's finances before investing your money - even if it is your business!

Partnership - A partnership can be a way to spread out the cost of ownership. Owners can consider selling stock to investors to raise funds. Stocks reduce risk, allowing for the diversification of personal assets. Stock can be sold to large private investors, venture capital, smaller investors, or to employees. Talk to your accountant and tax professional to understand the ramifications of this method.

Family and Friends – Perks of this option include flexibility, lower interest rates, and no credit history requirements. Acquiring money from family and friends does not require filling out paperwork or waiting for a loan to go through. When making the ask for money, schedule a meeting, provide information about the business, offer a product sample or a brochure, share the business plan, thoroughly explain the risk, allow the friend or family member time to think about the proposal, and formalize the arrangement in writing.

Before you ask for investments from family and friends, consider the following:

- How you would feel if the business affected your relationship(s) in a negative way.
- Can you reconcile the risks and rewards?
- Are you okay with losing your investment or theirs?
- Are you okay with potentially losing a good friend?

Three Options for Family and Friends to Invest in your Business

1. **Offering Equity Interest** – This route would mean investors get a share of the business, sharing the profits and losses as a co-owner of the business. To offer greater personal protections from loss, a business owner might convert their business structures. Talk to your accountant and tax professional to understand the ramifications of this method.

2. **Retirement Plans** - Another option is to invest self-directed IRAs or self-directed 401(k)s into small businesses, rentals, and real estate development. Investors can move their accounts to a custodian or trust company to put their retirement portfolios in a business instead of mutual funds or stocks.

3. **Gifts** - Investors and their spouses may give up to $15,000 to an individual each year. FACT CHECK THAT for 2023. Investors may charge interest.

Venture Capital – This form of private equity is allocated to startup companies and small businesses that are believed to have long-term growth potential and appear to continue expansion. Venture capital funds manage pooled investments in high-growth opportunities in startups and other early-stage firms and are typically only open to accredited investors. Although investors will demand a large share of the company's equity, this method provides early-stage companies with the capital to begin operating. Learn more at investopedia.com/terms/v/venturecapital.asp

Debt Financing

Credit Cards – A 2020 survey by Clutch found that 13% of the respondents relied on their credit cards for startup capital. While using a credit card may allow a borrower to keep control of their business and avoid the collateral a bank would require, they come with a lot of risk. Risks include mixing personal and business expenses, ruining credit scores, potential lawsuits, and the ability for debt to accumulate quickly. If owners consider this route, they should ensure they can satisfy the debt before the regular rate kicks in.

Best practice: Find a card that offers 0% APR on purchases and a no balance-transfer fee. Make a habit of paying off the entire balance by the due date.

Leasing Companies – Selling Equipment? Leasing may be the option to get a business going. Owners can take advantage of lower down payments and tax benefits but should know that at the end of the lease, they would have to have to buy out their lease to keep the equipment or return the asset.

Trade Credit – Turning products quickly? Trade Credit is a business-to-business (B2B) agreement in which a customer can purchase goods without paying cash up front, and repay the supplier at a later scheduled date, usually, 30, 60, or 90 days. This type of credit can be beneficial for freeing up cash flow and getting discounts on early repayments. Late repayment may involve high fees and impact credit scores.

Banks and Credit Unions – Banks and credit unions often require their loans to be guaranteed, requiring strong collateral (real estate, equipment, inventory, accounts receivable, etc.), credit scores, and a downpayment. This process can be intimidating for startups and small business owners who face many unknowns when starting or expanding. Getting a loan can allow owners to retain ownership, hire employees, expand products, services, locations, inventory, fund marketing, and cover unexpected expenses. These loans, especially when paired with SBA funding, free up cashflows, have longer repayment terms, and may offer lower interest rates, and smaller down payments.

SBA Loans

- **7(a) Loan** - The SBA's signature loan program offers working capital, refinancing debt, expansion, new constructions, and equipment loans to small businesses up to $5 million.
- **CDC/504 Loan** - This small business financing tool designed to help with the purchase of real estate or equipment. Loans from $125 thousand - $20 million.
- **CAPLines** - The SBA's signature line-of-credit program offers flexibility to seasonal and other businesses with irregular cash flow for short term working capital needs. Up to $5 million.

- **Export Loans** - For small businesses who currently export (or have plans to) and need capital to help with expansion efforts into new markets.
- **Microloans** - For small business, from $10 - $50 thousand, these loans are ideal for work-from-home business owners and freelancers.
- **Disaster Loans** - The only loan offered directly through the SBA, disaster loans help ease the financial burdens from natural and other disasters.

Local Loans for Small Business Owners

- **Beginning Entrepreneur Loan Guarantee** - Bank of North Dakota - **READ MORE**
- **Flex PACE Program** - Bank of North Dakota - **READ MORE**
- **Dakota Business Lending** - A Certified Development Company - **LOAN OPTIONS**
- Dakota Business Lending Community Advantage Loan
- **Lewis and Clark Development Group** - A Certified Development Company - **LEARN MORE**
- SBA Lender Match
- **Main Street Initiative Grant Programs** - Main Street ND - **LEARN MORE**
- **Dakota Medical Foundation Donor Funds** - **LEARN MORE**
- **Impact Foundation** - Impact investing provides a streamlined way to fund transformational businesses - **LEARN MORE**

Worried About High Interest Rates?

Have you ever heard of "buying down your loan?" Buying down is a way for a borrower to obtain a lower interest rate by paying discount points. Examples of buy downs include mortgage points or prepaid interest points. For a one-time fee paid up front, usually at closing, a business can reap the long-term rewards of a lower interest rate. Read about the Flex PACE Program at the Bank of North Dakota (mentioned in the paragraph above) for more information.

Alternative Funding

Crowdfunding - This alternative source of funding, typically beneficial for product launches, is like launching a promo landing page to gauge interest; it's a viable way to test the market. Some crowdfunding sources only allow funding for a limited time, some require meeting goals to receive any funds, and others serve as long-term community sites. Read the fine print to understand that you may get all or nothing depending on the agreement.

Fintech - These lenders typically provide smaller loans and credit options, lower barriers to entry, and function solely online. Some notable options include Kabbage and PayPal. Each platform has benefits and limitations. Limitations may include fewer funds available, being tied to a specific lender long-term, or even higher interest rates. With fintech, companies can benefit from expanding their finance options, automated accounting, online payments, and more.

Pitch competitions - Pitch competitions typically require specific locations, revenue stages, or membership with entrepreneurial groups. This form of funding is particularly beneficial for gaining exposure and expanding established businesses.

Grants – Grants are available for nonprofits, small businesses, and individuals for almost any need.

However, grants are typically for narrowly defined purposes, and many come with cumbersome reporting requirements. Finding grants for a business, especially a startup, is difficult. Two sites to watch for opportunities include **NDWBC.com/funding** and **Amber Grants**. **USDA grants** include opportunities for those in rural communities.

Steps to Secure Funding

1. Decide the type of loan you need.
2. Decide how you will spend the money.
3. Check your credit scores.
4. Update your financial statements.
5. Determine what payments you can afford.
6. Compare small business lenders.
7. Decide what to negotiate with your lender.
8. Pull together your financial documents for the loan application.
9. Decide what collateral you can put up.
10. Assess the value of your collateral.
11. Apply for your business loan.

SBA Lender Checklist

Although commercial loan requirements may differ, the key is to always be organized. Arming oneself with documentation and accurate figures will give a realistic picture of business financing options and will smooth out the process with lenders. This list is taken from the SBA Lender Checklist. SBA loans require more documentation than most because they are higher-risk loans. Contact your lender to understand what your loan application will require. As you prepare your documents, you will better understand your needs and gain greater financial literacy.

Ask questions even if you think they are silly and open yourself up to a great learning opportunity!

- ☐ **Borrower Information Form** - SBA Form 1919. This form must be completed by all associates of the business applicant, including all owners of 20% or more of the business, all officers and directors, managing members, any person hired to manage the day-to-day operations, and any other person who is guaranteeing the loan.
- ☐ **Personal Background and Financial Statement** - To assess a small business owner's eligibility, the SBA also might require that they complete the following forms:

- ☐ **Character Determination Package** – detailed written statement
- ☐ **Personal Financial Statement** - SBA Form 413 (Not required, but helpful)

☐ **Business Financial Statement** - This document supports a small business owner's application and demonstrate the ability to repay the loan. Prepare the following statements:

- ☐ **Year End Profit and Loss (P&L) Statement** for the last three years
- ☐ **Year End Balance Sheet** for the last three years, include a detailed debt schedule
- ☐ **Reconciliation of Net Worth**
- ☐ **Interim Balance Sheet**
- ☐ **Interim Profit & Loss Statements**
- ☐ **Financial Projections** - include year's worth of month-to-month cash flow projections

☐ **Business Certificate/License** - Small business owners must provide the original business license or certificate of doing business when closing the loan. A corporation must stamp the corporate seal on the SBA loan application form. These items should be readily available to provide to the lender.

☐ **Loan Application History** - Include records of any loans the small business owner may have applied for.

☐ **Income Tax Returns** - Include the business' signed federal income tax returns for the previous three years.

☐ **Resumes** - Include personal resumes for each principal.

☐ **Business Overview and History** - Provide a history of the business and its challenges. Include an explanation of why the SBA loan is needed and how it will help the business.

☐ **Business Lease** - Include a copy of the business lease, or note for a landlord, giving terms of the proposed lease.

If purchasing an Existing Business, the following information may be required:

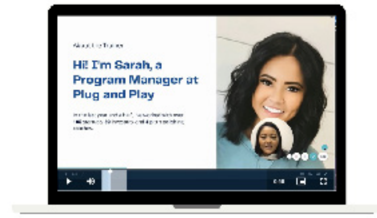
- ☐ **Current balance sheet and P&L statement** of business to be purchased
- ☐ **Previous federal income tax returns** of the business to be purchased (3 years)
- ☐ **Proposed Bill of Sale** including Terms of Sale - Asking price with the schedule of inventory, machinery and equipment, furniture and fixtures
- ☐ **Franchise, jobber, or licensing agreements**
- ☐ **Proof of equity injection**

Pitching to Investors

What Investors want to Know

1. You will not waste my time.
2. You know who I am.
3. You are well organized.
4. You know your subject.
5. Your most important point.
6. When you are finished.

Library Training:

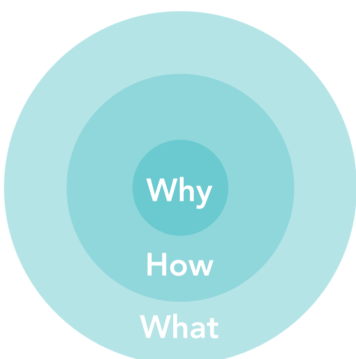


How to Effectively Pitch to Investors

Watch Now

Pitch Structures

The Golden Circle pitch method is the result of Simon Sinek's research into the success of the worlds most influential leaders and companies. Start with your why to create a better pitch:



1. **Why** – Why do you do what you do? Describe your purpose, cause or belief.
2. **How** – How do you plan on realizing what you believe in? What are the specific actions taken to realize your why?
3. **What** – What's the result exactly? What products and services do you deliver? What is the result of your why?
4. **Story Scope** – Does the why, how and what result in a clear, compelling story?
5. **Create Your Pitch** – Translate this mindmap into your pitch. Try to be brief for elevator pitches, or create longer pitches or stories.

Key Parts of a Pitch

Hook - Capture your investor's attention in the first 10 seconds. This period is when they decide if they are interested in the rest of your story. Use metaphor or ask questions.

Your Story - This is where you connect with them on an emotional level. Your story should hit the heart strings and make it personal for them.

Ask and Close - Make your ask, close your presentation, and leave your conact information.

Ensure you Answer the Following Questions

- What do you do?
- Why you and your team?
- What is the world like with you in it?
- How will you make money?
- What do you need to grow or scale?

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