Funding for your small business

Ensa Huger
AGENDA

Traditional vs. non-traditional funding
Traditional funding options
Non-traditional funding options
How to get started
What do you need to start a business? Three simple things: know your product better than anyone, know your customer and have a burning desire to succeed.”

Dave Thomas
Founder of Wendy’s
Traditional vs. non-traditional funding: What’s the difference?
Traditional funding

In general, traditional funding simply refers to funding obtained from banks or credit unions. This includes loans, lines of credit and bank credit cards.

Non-traditional funding

Simply put, non-traditional funding comes from sources other than banks and credit unions. The options are ever evolving.
Traditional vs. non-traditional funding

Traditional funding options

Non-traditional funding options

How to get started
Traditional funding

Bank loan
- Commonly term loans with fixed end dates 3-10 years
- Fixed interest rates with required monthly payments
- Used for major investment, upgrades, acquisitions and other major projects

Line of credit
- Similar to a credit card. Can be used for expenses not typically on a credit card (e.g. payroll)
- Only pay interest only the amount of line utilized
- Best for steady flow of income, decent credit history, and business with collateral

Credit card
- Flexible use and easy to track and report expenses
- Limits likely lower the loans and LOC
- Can be used to build business credit if managed properly
Characteristics of traditional funding

- Formal application process
- Potentially lengthy approval process
- Collateral such as equipment
- Control over use of funds
- Repayment vs. prepayment
# Informal traditional funding

<table>
<thead>
<tr>
<th>Personal savings</th>
<th>Family and friends</th>
<th>Bootstrapping</th>
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<tbody>
<tr>
<td>As a first time entrepreneur it might be difficult to secure outside funding from an investor or banking institution. Investing your own money is often a simple way to infuse the cash you need into the business.</td>
<td>Sometimes there are people in your immediate family or circle of friends who would be willing to loan you money with favorable terms.</td>
<td>After obtaining money from family and friends or even investing your own capital, you might need to bootstrap. This simply means using the proceeds from the business to fund the business, and it encourages simplicity and flexibility.</td>
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Simple ways to bootstrap your business

- Strategic credit terms
- Keep expenses low and flexible
  - DIY
  - Virtual office
  - Use the free versions
  - Look for discount codes
- Equity for expertise
  - Think: Incubators

Software development platform company, GitHub, launched as a bootstrapped startup in 2008 and was bought by Microsoft for $7.5 billion in 2018.
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Characteristics non-traditional funding

• Simpler application process
• Quicker approval process and distribution of funds
• Does not require collateral such as equipment
• Prepayment can save you money
• Growing number of options
Building Community
- Crowdfunding
- Peer2Peer Lending
- Pre-Sales

Pitch Perfect
- Accelerators
- Grants + Contests

Leveraging Relationships
- Short-Term Loans
- Revenue-Based Funding

Social Impact
- Micro-Finance
- CDFI's

Non-traditional funding options

Specific-Use Funding
- Marketing-Based
- Factoring/PO Financing
Crowdfunding leverages small amounts of capital from a large number of individuals to finance a new business venture. Mostly done via the internet.

Key Statistics:
- $34 billion raised worldwide (2020)
- Seventy-four percent of campaigns exceed their fundraising goals
- Average preparation time is 11 days
- Most campaigns consist of four posts throughout the average duration (nine weeks)
- Market is expected to be $300 billion by the year 2030
“Oculus, the massively popular virtual reality headset, was purchased by Facebook for $2 billion in 2014. But, before that, the company launched on Kickstarter seeking $250,000 to develop the Oculus Rift headset. Within four hours, the campaign reached its target; the campaign eventually raised $2.4 million.”

“The Coolest Cooler fundraiser is both a success story and a cautionary tale. The cooler, which features an ice-crushing blender, Bluetooth speaker, USB charging port and more, raised $13 million on their Kickstarter campaign. But demand far outpaced the company’s capacity to deliver. The company needed to raise an additional $15 million, part of which was needed to fulfill orders from the crowdfunding effort.”

Helpful Article “Everything You Need to Know About Crowdfunding”
Peer-to-peer lending, also abbreviated as P2P lending, is the practice of lending money to individuals or businesses through online services that match lenders with borrowers.

- Not borrowing from a financial institution
- Borrowing from an individual or group of individuals who are willing to loan money to qualified applicants
- Loans are often limited to about $35,000

Rates and terms are set by the various sites — sometimes include investor input.
Pre-selling products

Pre-sales are becoming an increasingly used strategic launch model especially during times of economic uncertainty. In addition to providing upfront capital, there is also a strategic marketing advantage. Think virality!

Key facts:
• Consumers = investors
• Quickly understand the markets response to your product or service offering
• Managing customer expectations is paramount
• Use this time to communicate and build relationships with your “die hard” customers
  • Multi-channel communication is important
• Might have to provide discounts
  • Discounts can decrease as the waiting period decreases
Pre-selling products

July is the new air conditioner disruptor that garnered a 20,000 person waitlist despite launching during the pandemic.

When the coronavirus first hit, the company decided to implement a monthly slot-based program starting with a waitlist. This meant that every month a certain set of slots would open up and be filled by those on the list.

This allowed interested customers to sign up for updates on discounted pre-orders availability over the following months. When summer arrived and slots rolled out, the company sold $300,000 worth of units in the first 10 days for the July fulfillment. The following months’ slots have also been sold out, with September currently filling up.
Microfinance refers to the financial services to low-income individuals or groups who are typically excluded from traditional banking.
CDFI or Community Development Financial Institutions can be banks, credit unions, loan funds, microloan funds or venture capital providers.

**Common goal:** Providing financial products and services to specific low income individuals and businesses in those communities.
Since 1979
$24 billion
total investment

leading to
$69 billion
in total development

Grants
$1.3 billion

Loans
$4.6 billion

Equity
$18 billion
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Non-traditional funding options
Specific-use funding

- Factoring is the process of selling future receivables for immediate cash. Another similar practice is called purchase order (PO) financing which involves financing a large PO backed by sales that offset specific purchase(s).

- Marketing-based funding is focused on growth. Funding is directed towards ads that will grow the businesses revenue. Repayment is a reduction of inbound cash from sales.

Stated use of funds

Repayment usually as a reduction in inbound cash from sales
“Clearbanc is a game changer. You don't need to put up your house, drown in credit cards or give up a piece of your baby to fund ads and inventory.”

GARY VAYNERCHUK
CEO of VaynerMedia, 5-Time NYT Bestselling Author & Co-Founder of Empathy Wines
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Flexible loans offered by a growing number of firms.

- Usually repaid as a percentage of revenue (daily, weekly or monthly)
- Repayment scales with cash flow
- Amount of loan can be based on existing revenue trends
- Not ideal for startups without sales traction
- Easy online applications often linked with a sales or ecommerce platform

Helena Price Hambrecht is the co-founder and co-CEO of Haus, the first direct-to-consumer company in the liquor space. Her relationship with Shopify Capital enabled her business with the simplified, fast funding needed to grow, so she could get back to making great decisions quickly.
Short-term loans

- Type of online term loan with short repayment term (<1 year).
- Factor rate fee structure instead of interest rate
- Lender cares more about your daily cash flow than your credit score

- Faster time to funding (1–2 days)
- Higher total loan cost (typically between 10% and 60% of the borrowing amount)
- More frequent repayments (often daily or weekly)
QuickBooks Capital

- Quick application to many possibilities
- Deepens existing partner relationship
- Leverages existing financial data
- Quick decisions
- Quick funding
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Accelerators

Allow founders and owners to focus on growth and traction instead of fundraising.

- Usually includes a network of investors and founders
- Investments and/or expertise for equity
- May come with an entrance fee
- Ideal for founders looking for funds and assistance in growth

YC Top Companies

Here is a list of the top Y Combinator companies by valuation and top exits as of January 2021.

Discover more YC companies in the Startup Directory.

How is this list compiled?

$300B+ combined valuation
125+ companies valued at $150 million+
60K+ jobs created
Taking a chance...

Grants
• The number one advantage of business grants is that they are **essentially free money**. Grants do not need to be repaid, which is what makes them so appealing for business endeavors.

Contest + competitions
• Can be used to build awareness and get investor feedback
• Prize fund amounts can vary wildly, as does success

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<th>Time-consuming application with clear probability of funding</th>
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<tbody>
<tr>
<td>Waiting game</td>
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<tr>
<td>Justify your purpose and operate within strict guidelines</td>
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<td>May come with strings attached</td>
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## Starting your funding journey...

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<th>Decide what type of funding is best for you</th>
<th>Get prepared</th>
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<tr>
<td>• Consider what stage your business is currently in</td>
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<td>• Determine what you plan to use the funds for</td>
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<tr>
<td>• Determine the amount of funding you need</td>
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<tr>
<td>• Ask yourself, “How long will it take me to re-pay this funding?”</td>
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<tr>
<td>• Determine how soon you need funding</td>
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<tr>
<td>• Establish a consistent banking relationship</td>
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<tr>
<td>• Explore relationships with other existing providers (e.g. QuickBooks, PayPal, Shopify)</td>
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<tr>
<td>• Prepare historical financial statements and tax documents — both personal and business for the past two to three years</td>
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<tr>
<td>• Create or update your business plan and include specific uses of funds and forecasts with and without funding</td>
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<tr>
<td>• Prepare a pitch deck when necessary</td>
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<tr>
<td>• Objectively assess your businesses value</td>
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Traditional funding involves banks or credit unions.

Traditional funding process more in-depth and perhaps more restrictive.

Non-traditional funding comes in many forms and usually does not involve banks or credit unions.

Non-traditional funding can be simpler and quicker to obtain.

Prepare for funding before you need it.
Thank you