A roadmap for funding your business

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Successfully launching a new business takes a good deal of skill and hard work. It also requires meticulous planning. This process includes everything from naming your business and writing a sound business plan to learning how to protect your ideas and getting the appropriate licenses and permits. The foundation of any new venture, however, is based largely on getting the funding necessary to start and support your business. This is an area in particular where careful, thoughtful planning will pay off. The following are a few of the key financial issues to consider as you begin the process of getting your new business off the ground.

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Get your personal finances in order

If you're starting a small business, especially for the first time, your personal credit report is your best reference. That's because your personal credit provides investors with a clear picture of how you manage your finances. Given this, it's critical to look closely into your personal credit history before you even begin the process of exploring funding options. Specifically, you'll want to know what your credit score is and also be sure the information on your credit report is completely accurate. Correct any errors and report fraud or other problems to both the credit reporting company and the creditor involved.

Reviewing your personal credit history

There are three major consumer credit reporting bureaus you should consider when reviewing your personal credit record:

- Equifax
- Experian
- TransUnion

You can order a free copy of your credit report, which includes all the major credit reporting bureaus, by phone (1-877-322-8228) or online at www.annualcreditreport.com. You can also subscribe to a service that provides regular, ongoing updates on your credit reports. Alternatively, you may opt to purchase more detailed reports individually from each of the credit reporting companies.

Don't forget – business is business

Although your personal financial standing will play a role in attracting investors at the outset, it is important to keep personal and business funds and expenses separate. To gain a better understanding of what is considered a business expense, you can review IRS Publication 535, available at www.irs.gov, or consult with your own accountant. You may also refer to the description of business expenses included in your accounting software.

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Tracking expenses can sometimes be difficult, especially once your business gets going and your daily responsibilities increase. There are, however, a few tips and best practices that can make tracking business expenses a little easier. For instance, many small business owners think of themselves as suppliers to their organizations. In this case, you would pay yourself for those things you provide to the business. This includes space for your home office, mileage on the car for business meetings, heat and electricity, as well as phone and Internet. You may even opt to pay yourself a salary, depending on the cash flow your business is generating. Remember, however, that maintaining your personal financial health is critical to funding your new business – both at the outset and on an ongoing basis. So if you do choose to draw a salary, be sure it is enough to cover your personal expenses with little or no additional contribution from the business.

Begin building your financial profile

Once you've thoroughly reviewed your personal finances and determined how you will separate business from personal expenses, you'll next need to develop a financial profile. This is simply the financial information that is included in a business plan. When well designed, your financial profile will prove to investors that you have examined all the key drivers for success or failure related to your business venture and, ultimately, addressed how any issues or challenges will be managed.

Specifically, the financial profile in your business plan should include:

- A cash flow statement
- A breakeven analysis
- A personal financial statement
- Your funding needs

You also may want to examine the business climate relative to your industry at the local, regional and national levels. This includes looking at how any new developments in equipment or market demand, among other factors, might affect your need for funding or your sales forecasts. For example, if your product is dependent on a specific type of technology or is heavily based on a current fad, a change in technology or in consumer tastes could make your product less appealing to potential customers and decrease your sales.

In the end, your financial profile should provide the background and supporting information necessary to justify the total amount of funding your business will need to get started. Since this is the most important and critical part of your business plan, it is never too early to start preparing your funding proposals. You can always renegotiate a later start date of a loan or other funding sources once it's secured – but it's unlikely that you will be able to get funding at the last minute if you delay.

Establish a trusted banking relationship

An underlying factor of your business financials will be the banking partner you've chosen – both in terms of cash flow management and in funding availability. It's important at this point to not be short sighted, but to partner with a bank that provides a comprehensive array of products and services which can support your business as it grows and its needs expand. Some of the product offerings you may want to consider include:

- Traditional banking services such as checking, money market, savings and escrow accounts, as well as CDs;
- Business credit cards;
- Funding solutions that range from lines of credit and term loans, to leasing alternatives and commercial mortgages, to U.S. Small Business Administration (SBA) loans;
- Cash management solutions like remote check deposit, payroll services, wire transfers and online bill payment; and
- Trade services and letters of credit.

Of course, choosing a banking partner goes well beyond just products and services. You need to be comfortable with the relationship, and confident that you will get the service and guidance you need. That's why it's always advisable to visit with more than one bank before making a decision.

Begin by setting up introductory meetings in local branches of potential banking partners — putting aside 30 minutes or so for the initial visit. Bring with you a business card and brochure, if they are available, as well as a one-page description of your business. Prepare a list of questions in advance, delving deeper into what financial services are available and what their experts recommend for start-up businesses. When you've met with several banks, compare the experiences to your personal banking relationships and evaluate the differences in their questions and interest in your business.

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Determine the best way to fund your business

There are really two types of capital you should consider as you begin to make plans for funding your new business – equity and debt. With equity, investors provide funds in exchange for an ownership stake in the business, which may include voting rights and dividends, as well as a share in any profits. Alternatively, debt involves borrowing funds that, along with fees and interest, must be paid back over time.

Regardless of which you choose initially, each comes with its advantages and disadvantages.

	Equity	Debt
Advantages	• With equity from investors and other sources, you have ready access to funds as needed. • The more equity funding you have, the more debt funding you may qualify for. • If your business succeeds, investors can earn back their initial investment plus a rate of return. • If your business fails, investors lose their equity and you have no obligation to pay back their investments.	• Debt funding can be more flexible than equity funding in that it can be set up as an available line of credit and used only when necessary to meet cash flow needs. • There is no need to give up any ownership, voting or management rights.
Disadvantages	• You may have to give up a percentage of the ownership, management rights and long-term profits.	• If the business does not succeed, you are still responsible for repaying all loans, credit lines and other debt funding. • It may be difficult to get additional funding on short notice.
Potential Sources	• Personal savings • Family and friends • Angel investors • Venture capitalists • Potential customers • Economic development organizations • Community resources for small businesses	• Banks • Lines of credit from suppliers • Business development programs • Microfinance organizations • Microlenders • Industry colleagues • Your personal credit history will have a direct impact on the availability of financing for your business.
Take Note	• Start-ups are generally not attractive to venture capitalists until they have been successfully operating for three to five years.	• Your personal credit history will have a direct impact on the availability of financing for your business.

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Know Your SBA loan options

The Small Business Administration (SBA) is a U.S. government agency focused on promoting, educating and advising small businesses. In certain cases, the SBA may also provide funding. The three most popular loan guarantees available through the SBA are the SBA Express Program, SBA 7(a) Program and 504 Loan Program.

SBA Express Program*

- A Business Installment Loan or Business Credit Account for loans up to $350,000
- The SBA determines the maximum term and rate, guaranteeing repayment of 50% of borrowings to the lending bank
- The Program may vary from bank to bank as to availability, terms, and/or conditions
- Useful for financing equipment or inventory and leasehold improvements, as well as supplementing working capital

SBA 7(a) Loan Program*

- A fully-amortized loan with monthly principal and interest payments for loans ranging from $250,000 to $5 million
- Fixed or variable rates and flexible terms depending on use with the SBA guaranteeing repayment to the lending bank up to 90% of the borrowed amount
- Useful for the purchase or construction of business space, buying equipment or machinery and expanding or acquiring a business, as well as refinancing debt or building working capital

(504) Loan Program*

- Long term, fixed rate financing for larger funding needs with loans ranging from $500,000 to as much as $10 million
- A combination of a bank loan and an SBA/Certified Development Company (CDC) loan
- Used primarily for construction, purchasing or expansion of commercial real estate or purchasing long-term machinery or equipment

What's right for your business?

To help you decide which type of loan might be right for you, look for a Small Business Development Center (SBDC) in your community. These centers, which are associated with the SBA and located throughout the U.S., provide counseling, training and technical guidance in all aspects of small business management. This includes helping new businesses with financials, marketing, production, organization and engineering, as well as technical issues and feasibility studies. The business professionals in the SBDC can help you determine whether debt or equity funding is best for you and which, if any, SBA loans will benefit your start-up.

Many state, county and municipal governments support local economic development organizations that focus on helping small businesses. For instance, New York City supports the NYC Business Solutions Center through the NYC Department of Small Business Services.

Apply for funding early

Regardless of which direction you choose to go in terms of funding, the key is to start the process early. Begin by reviewing application and filing requirements to ensure you have all the information you need to prepare your funding proposals. This will typically include:

- All the necessary business registration and tax forms;
- Personal and professional references;
- Detailed support for your financial figures; and
- Information requested by prospective lenders.

Then, create a funding schedule to keep track of applications submitted to your top choice sources. You can include any details that make it easy for you to monitor the status of your requests such as when you applied, appointments and phone calls that took place, letters and e-mails sent or received and other contact information.

Talk to Citibank

The bottom line is that the more effort you put into organizing your funding package at the outset, the more smoothly the process will be and the more likely you will get access to the funding you need.

For personalized guidance, you can also consult with a Citibank Business Specialist. Our professionals understand the unique challenges small business owners face today.

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Resources

Starting a New Business

U.S. Department of Labor Small Business Resource Center
http://www.dol.gov/oasam/programs/osdbu/sbrefa/

U.S. Small Business Administration
http://www.sba.gov/smallbusinessplanner/index.html

Education and Networking

National Association for the Self-Employed
www.nase.org

National Association of Women Business Owners
www.nawbo.org

National Business Association
www.nationalbusiness.org

SCORE Small Business Community
www.scorecommunity.org

Society for Hispanic Professionals
www.nshp.org

U.S. Patent and Trademark Office
www.uspto.gov

Young Presidents' Organization
www.ypo.org

Funding

Association of Enterprise Opportunity
www.microenterpriseworks.org

Export-Import Bank of the United States
http://www.exim.gov/

Ewing Marion Kauffman Foundation
http://www.kauffman.org

Microlending
http://www.sba.gov/smallbusinessplanner/start/financestartup/SERV_LT_MICRO.html

*Please note that credit qualifications apply, and all rates or guarantees discussed are subject to change.

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